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ABSTRACT

The purpose of this guidebook is to reflect the changes that have occurred since 1973 in governmental accounting and education finance. This document serves as a vehicle for program cost accounting at the local and intermediate levels. Although not required by federal law, the National Center for Education Statistics (NCES) encourages state and local adoption of the guidelines provided in this book, which conform to generally accepted accounting principles (GAAP). The contents are as follows: an overview of educational finance principles and information sources; uses of the account classification system; account classifications; implementation of account classifications; cost accounting for educational programs; and account classification descriptions. Appendices provide examples of financial statements, minimum required classifications, cash basis/single-entry accounts, supplies and equipment criteria, federal revenue sources, and a nonpublic school chart of accounts cross walk. Eight tables and seven figures illustrate the material. (LMI)

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Financial Accounting for Local and State School Systems 1990

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The Modification of Handbook 2R2

A task force was convened by NCES to review the current federal accounting manual, *Financial Accounting for Local and State School Systems*, (NCES, 1980) [commonly referred to as Handbook 2R2], and to recommend updates prior to NCES undertaking a reprinting of the widely used accounting handbook. The 2R2 task force was composed of:

David R. Bean, CPA, Director of the Technical Services Center of GFOA, and the co-author of the 1988 *Governmental Accounting, Auditing and Financial Reporting* (GAAFR), Government Finance Officers Association (GFOA)

Don Toft, Accountant, and Bernie Gatti, Accounting Consultant, Association of School Business Officials (ASBO)

Raymond McDonald, Comptroller, American Association of School Administrators

Stewart Graff, Representative of the American Institute of Certified Public Accountants

Billy D. Walker, Representative from the American Education Finance Association, Director, Texas Center for Educational Research

Eve Shepard, National School Boards Association

Larry MacDonald, Governments Division,
U.S. Bureau of the Census

James Bliss, former Director of School Finance, Missouri Department of Education, now Assistant Superintendent of Finance, Grandview School District, Grandview, Missouri

Rolland A. Bowers, Associate Superintendent for Financial Services, Tulsa Public Schools

Roger Sunby, Assistant Superintendent, Division for School Financial Resources and Management Services, Wisconsin Department of Education

Kenneth Smith, former Manager, Data Systems, Illinois State Board of Education, now retired

David A. Lariscy, Director, Fiscal Services Division, Georgia Department of Education

John Hess, Assistant Superintendent for Finance, Fairfax County Public Schools

Jeanine Blomberg, Financial Program Director, Florida Department of Education

Dudley Brewton, Administrator, Financial Management Section, Florida Department of Education

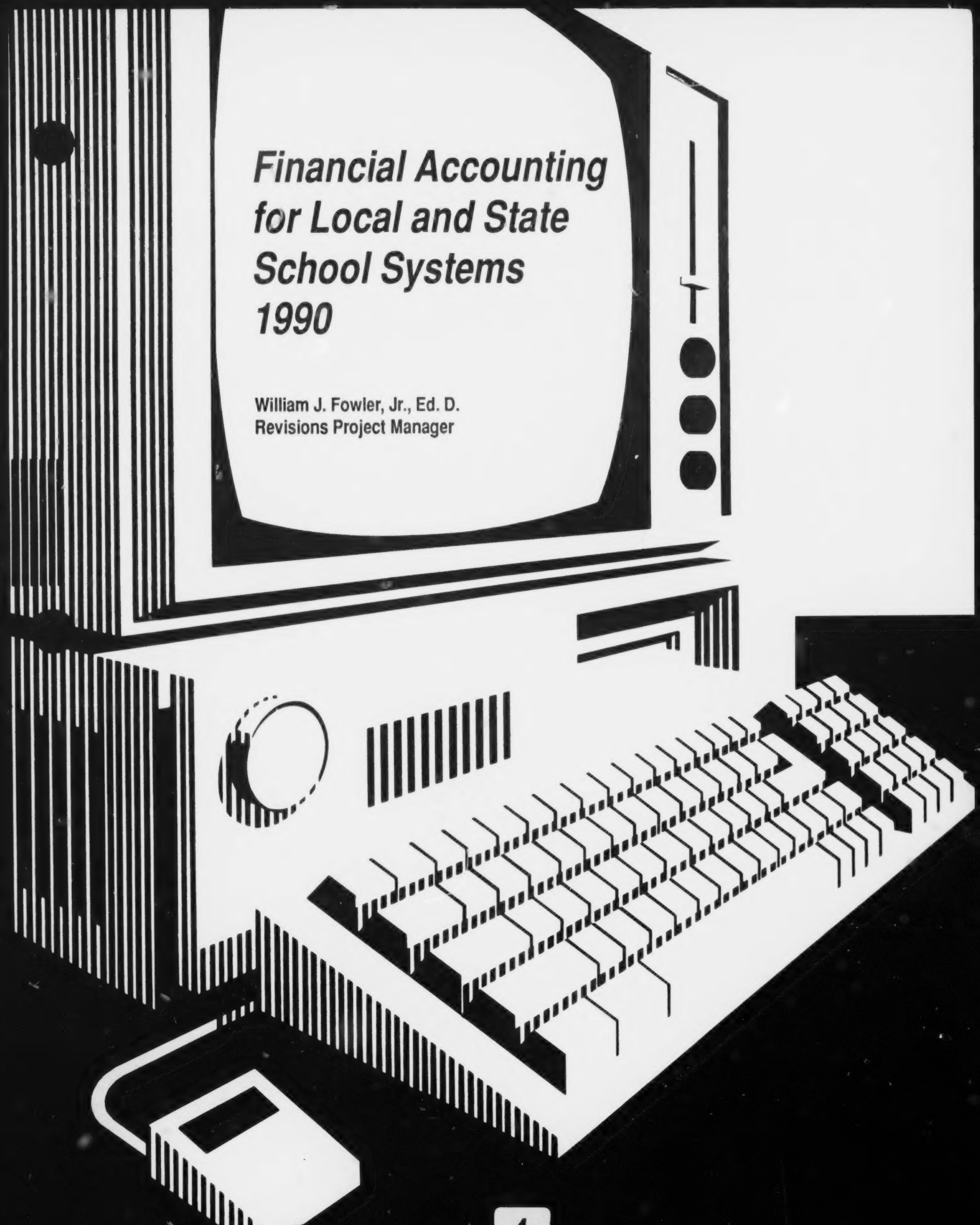
Paul H. Ettinger, Auditor, Michigan Department of Education

Howard Nelson, Assistant Director of Research, American Federation of Teachers

Will Meyers, Director of Research, National Education Association

Barbara Clements, Director, Educational Data Improvement Project, Council of Chief State School Officers

William J. Fowler, Jr., OERI Senior Associate, National Center for Education Statistics



Financial Accounting for Local and State School Systems 1990

William J. Fowler, Jr., Ed. D.
Revisions Project Manager

U.S. Department of Education
Lauro F. Cavazos
Secretary

Office of Educational Research and Improvement
Christopher T. Cross
Assistant Secretary

National Center for Education Statistics
Emerson J. Elliott
Acting Commissioner

Information Services
Sharon K. Horn
Director

National Center for Education Statistics

"The purpose of the Center shall be to collect, and analyze, and disseminate statistics and other data related to education in the United States and in other nations."—Section 406(b) of the General Education Provisions Act, as amended (20 U.S.C. 1221e–1).

July 1990

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Foreword

Financial Accounting for Local and State School Systems, 1990, replaces the 1980 printing. This publication contains only minor changes and clarifications to the 1980 edition, in order to reflect changes that have taken place in Generally Accepted Accounting Principles (GAAP), and to resolve debates regarding the definition of current expenditures and the classification of supplies and equipment. No major changes in the account classification system have been made, and significant changes in the handbook will not be undertaken until the outcome of several exposure drafts from the Government Accounting Standards Board (GASB) is decided.

Updates to this document were prepared with the cooperation and guidance of a national review committee. The committee consisted of 16 members representing the Association of School Business Officials (ASBO), the Government Finance Officers' Association (GFOA), the American Association of School Administrators (AASA), the American Institute of Certified Public Accountants (AICPA), the American Education Finance Association (AEFA), the National School Boards Association (NSBA), the Council of Chief State School Officers (CCSSO), the National Education Association (NEA), the American Federation of Teachers (AFT), and selected State and local chief school finance officers.

Financial Accounting for State and Local School Systems, 1990, has been designed as a national standard for State Departments of Education to use in reporting financial data and for school districts to use in preparing their comprehensive annual financial reports (CAFRs) that are submitted to their respective State Departments of Education. The purpose of the handbook is to ensure that education fiscal data can be reported in a comprehensive and uniform manner. Throughout the discussion of revisions, the emphasis was to ensure that the handbook conformed to generally acdepted accounting principles (GAAP) as they are stated by the Government Finance Officers' Association (GFOA) in its 1980 publication, *Governmental Accounting, Auditing, and Financial Reporting*.

The members of the national review committee are to be especially commended for the many long hours spent in reviewing and criticizing the several drafts as they were developed. Further acknowledgement of the persons and organizations who have contributed to the revision of the handbook can be found on the reverse side of this page.

William J. Fowler, Jr., Ed.D.
OERI Senior Associate

July 1990

UPDATES

Updates to this Accounting Handbook were handled in two ways:

- When the updated information could not be easily added to the original text page, an Update page was added. The Update pages follow immediately behind a modified entry. Each such change is marked with an asterisk (*) in the original text.

- When the change required the simple addition or deletion of minimal text, the change was made to the original copy. These changes are marked with a double asterisk (**).

For additional information or assistance, contact William Fowler at (202) 357-6921.

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Chapter 1

Introduction

The Purpose of *Financial Accounting*

The primary purpose of *Financial Accounting* is to reflect the changes that have occurred since 1973 in governmental accounting and education finance. *Handbook II* was designed to serve as a vehicle for program cost accounting at the local and intermediate levels. This need still exists, but additional needs have appeared. *Financial Accounting* addresses those needs.

NCES's Role in Developing Education Data Systems

NCES has a responsibility to provide and interpret comprehensive statistics about the condition of education in the United States. In addition, it has congressional mandates calling for conducting and publishing specialized analyses and for providing assistance to States and LEA's in improving their statistical activities.

To fulfill its role, NCES sponsors a number of programs, ranging from regular data collection to the development of materials and techniques that facilitate the compilation and comparison of statistical information. One of these programs is the development and periodic revision of manuals of standardized terminology. *Financial Accounting* is one of several publications sponsored by NCES in a coordinated attempt to produce comprehensive and compatible sets of standardized terminology for use in education management and reporting.

Adoption of the guidelines in *Financial Accounting* is not required by Federal law. NCES does not mandate their use at either the State, intermediate, or local level. However, NCES does encourage State and local school systems to use these guidelines in their planning of new recording and reporting systems. State and local school system administrators realize the value of having well-organized, standard items of comparable data at their disposal for management and reporting purposes. As a result, many of the Nation's school systems use the guidelines in *Handbook II*, and many Federal and State reports use its terms and definitions.

Criteria for Items of Information

The following basic criteria were used in selecting items and classifications for inclusion in this publication:

1. The items, accounts, and categories of information should provide the basic framework fundamental to a comprehensive financial management system;
2. The guidelines should serve all sizes and types of LEA's;
3. The categories of accounts should be both contractible and expandable, enabling all LEA's to adapt them to support various financial management information systems;
4. Data elements should be additive into needed categories for purposes of reporting and comparing at the local, State and Federal levels;
5. The guidelines should conform to generally accepted governmental accounting principles;
6. The guidelines should include the categories necessary to provide full disclosure of financial information;
7. The categories included should provide an adequate audit trail.

Conformance With Generally Accepted Accounting Principles

A primary emphasis of this publication is to define account classifications that provide meaningful financial management information to its users. As part of this emphasis, *Financial Accounting* is written to conform to generally accepted accounting principles (GAAP),[1] a uniform minimum standard of and guidelines for financial accounting and reporting. For LEA's, adherence to GAAP implies that their financial reports contain the same types of financial statements for the same categories and types of funds and account groups. Such conformity will enhance the comparability of LEA financial reporting.

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[1] As set forth in the National Council on Governmental Accounting's *Governmental Accounting and Financial Reporting Principles, Statement 1*, published by the Municipal Finance Officers Association, Chicago, Illinois, March 1979.

The twelve principles applicable to LEA's are summarized below:

1. *Accounting reporting capabilities.* An LEA's accounting system must be capable of producing financial reports in conformity both with GAAP and with legal requirements if the two are different;
2. *Fund accounting system.* The LEA accounting system must be organized and operated on a fund basis;
3. *Types of funds.* Only seven types of funds should be used by LEA's. These funds are listed on page 17 and further described on pages 77 and 78;
4. *Number of funds.* An LEA should establish and maintain the least number of funds possible;
5. *Accounting for fixed assets and long-term liabilities.* Fixed assets and long-term liabilities not related to specific proprietary funds or trust funds should be accounted for in the general fixed assets and general long-term debt account groups, respectively;
6. *Valuation of fixed assets.* LEA fixed assets should be recorded at cost or estimated cost. Donated fixed assets are recorded at fair market value;
7. *Depreciation of fixed assets.* Depreciation should not be recorded in the accounts of the governmental funds. If depreciation in governmental funds is required for cost accounting purposes, it may be recorded in the general fixed assets account group. Depreciation of proprietary fund fixed assets should be recorded in the accounts of that fund;
8. *Accrual basis in governmental accounting.* The accrual basis of accounting should be used for proprietary funds, non-expendable trust funds and pension trust funds. The modified accrual basis of accounting should be used for governmental funds and expendable trust funds;
9. *Budgeting, budgetary control, and budgetary reporting.* Every LEA should adopt annual operating budgets and certain of those budgets should be reported in the financial statements;
10. *Revenue, expenditure, transfer, and expense account classifications.* An LEA should provide for the classification of revenues, expenditures, and expenses into certain specific categories. Interfund transfers and the proceeds from general long-term debt should be classified separately from revenues and expenditures or expenses;
11. *Common terminology and classifications.* An LEA should consistently utilize terminology and classifications common to the funds maintained;
12. *Interim and annual financial reports.* A comprehensive annual financial report should be issued by every LEA. Interim financial statements should be prepared to facilitate management control of financial operations. These may be made available externally.

In keeping with GAAP, NCES and the national review committee have based this publication's content and format on double entry and the accrual or modified-accrual basis of accounting. However, because of existing State laws or individual preference, some State Education Agencies (SEA's) will continue to expect LEA's to maintain their accounting records on a cash basis, on a single-entry system, or both. To accommodate those SEA's and LEA's which are not ready to adopt the recommended accounting practices, appendix C identifies the additional receipt and disbursement classifications needed to operate on a single-entry set of records and to provide the balance sheet accounts most frequently used in a cash-basis/double-entry system.

Legal provisions may conflict with GAAP. Statement 1 of GAFR says,

> "Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary. . . .
>
> "Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system may be maintained on a legal-compliance basis, but should include sufficient additional records to permit GAAP-based reporting."[2]

Basis of Accounting

The "basis of accounting" refers to the point in time when revenues, expenditures or expenses (as appropriate), and the related assets and liabilities are recognized in the accounts and reported in the financial statements. In other words, the "basis of accounting" determines the timing with which the accounting system recognizes transactions.

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[2] Ibid., p. 5

Cash-Basis Accounting

Cash-basis accounting recognizes transactions when cash is received or disbursed. In the most common version of a cash-basis accounting system, the financial condition of the LEA is measured primarily by the size of the system's cash balance. All other assets and liabilities are recognized only to the extent they have arisen from prior cash transactions. Notes and bonds payable and interfund loans receivable and payable are, therefore, recognized, for example, but accounts receivable and accounts payable are not. Cash-basis accounting provides information about the LEA's financial operations only by reporting changes in the system's cash balance, adjusted for changes in any other assets or liabilities which have arisen through prior cash transactions.[3]

One of the greatest weaknesses of the cash basis of accounting is that it *does not recognize* accounts receivable, accounts payable and other accrued items. It therefore does not match resources used to resources provided. This situation may falsely lead financial statement readers to believe that the statements present the LEA's complete financial position and results of operations. Using the cash basis, an LEA may thus fall into a deficit position without being aware of its real financial position. It is difficult to eliminate a current year deficit if the LEA is not aware of the circumstances until the close of the fiscal year. With cash-basis statements, then, the statement reader may not be able to determine if an LEA is operating beyond its means.

Accrual-Basis Accounting

The accrual basis of accounting is regarded as the superior method of accounting for the economic resources of the LEA. This method allows an LEA to determine its financial position and results of operations by measuring economic resources and obligations. Changes in these factors can also be measured as those changes occur, regardless of the timing of the related cash flows.

GAFR recommends use of the accrual basis to the fullest extent practicable. With minor differences in wording, the Association of School Business Officials of the United States and Canada (ASBO) agrees with this position. Between proprietary funds (accrual) and governmental funds (modified accrual), the accrual basis is applied differently. In proprietary funds, revenues are recorded when they are earned and become measurable, and expenses are recorded when the liability for them is incurred, if measurable. The governmental fund revenues and expenditures should be recorded on the modified-accrual basis. Revenues should be recorded when they become available and measurable. Expenditures should be recorded when incurred, if measurable.[4] Some of the advantages of accrual-basis accounting include:

- providing a comprehensive measurement of financial position and results of operations;
- providing accountability for individual assets within the accounting system at the earliest appropriate date;
- providing the potential for cost accounting analyses and comparisons;
- promoting comparability from period to period;
- reducing management's ability to control cash flows in such a way as to produce financial statements that will seem to present financial position and results of operations in either a more optimistic or more pessimistic context, depending upon management's particular preference at the end of any given fiscal year.

For those LEA's using the accrual basis of accounting, the revenue classifications, expenditure dimensions and balance sheet accounts may be used as illustrated in chapter 3.

Single-Entry/Double-Entry Accounting

A single-entry accounting system is easily illustrated by the check register in a checkbook. In that system, a single entry is recorded for each cash receipt or cash disbursement. The cash account is increased or decreased by each transaction. Single-entry accounting systems in LEA's operate in a like manner.

A double-entry accounting system requires that for every entry made to the debit side of an account, an entry for a corresponding amount be made to the credit side of another account. Double-entry accounting involves maintaining a balance between assets on the one hand and liabilities, reserves, and fund equities on the other.

Some LEA's will maintain a partial double-entry system. For example, an LEA might keep a running balance in the cash accounts and in certain other assets and liabilities requiring immediate access, such as investments, taxes receivable, and notes payable. In these instances, at least two entries are required to record a particular transaction, but these entries are not always self-balancing. Many times, though, the LEA will maintain its records on a single-entry system, and at the end of the reporting period convert the records to double entry to prepare a balance sheet.

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[3] Ibid., pp. 10-11.

[4] Ibid., pp. 10-11.

The double-entry system has two advantages. First, the LEA can prepare a balance sheet which reports the financial status of an LEA at a particular date. Secondly, the double-entry system provides a good set of checks and balances in the accounting system.

Comparability

Using the classifications and definitions in this handbook will enhance comparability of recorded and reported financial information among LEA's, the States and the Federal Government. Obviously, many steps are needed for comparability in addition to adopting the accounts in this publication. However, to achieve financial comparability, LEA's, SEA's and the Federal agencies concerned with education must be prepared to use the minimum-account classifications included here. This comparability should provide assistance to LEA, State and Federal administrators, legislators, LEA boards of education and the general public in understanding where funds come from and how they are used.

Types of Education Agencies

Ways of using these guidelines by education agencies will vary at local, State and Federal levels. To keep the references to the different levels of education agencies simple and concise, *Financial Accounting* uses the following terminology:

- *Local Education Agency*, or *LEA*, refers to an education agency at the local level which exists primarily to operate schools or to contract for educational services. Normally, such publicly operated agencies may levy taxes for school purposes. These agencies may or may not be coterminous with county, city, or town boundaries. This term is used synonymously with the terms "school district," "school system," and "local basic administrative unit";
- *Intermediate Education Agencies* are units of government in between local and State levels having independent fund-raising capability.
- *State Education Agency*, or *SEA*, refers to State departments of education or public instruction, State boards of education, State education commissions, and State education authorities;
- *Federal Education Agency*, or *FEA*, as used here refers to any Federal agency or subdivision having responsibilities for supporting or delivering education services. It particularly refers to the U.S. Department of Education and its various subdivisions.

**

Statements and concepts in this publication directed toward LEA's also apply to the financial accounting needs of other agencies: schools, educational programs and other education institutions operated by SEA's and FEA's; and parochial schools, private schools, regional education centers or cooperatives (such as area vocational or special education centers), adult/community/continuing education agencies, and similar institutions.

The Value of Preparing State-Level Accounting Manuals

The LEA is the organization most likely to use the account classifications described here. However, the SEA is the most likely direct user. Both derive direct benefits as acceptance and use of these guidelines spreads among LEA's. The resulting increased uniformity of accounting records in use at the local level will make financial data assembled at the State and Federal levels more comparable and meaningful.

In most States, because of State statutes and regulations, these guidelines cannot be adopted without certain changes. For this reason, the SEA should prepare a State manual based upon the guidelines, making whatever modifications are necessary because of State statutes, regulations, and special reporting needs. Chapter 4 provides guidelines for preparing the State manual.

Financial Accounting and Its Supplement

While this publication includes a complete listing of classifications and standard terminology, it is not all-inclusive. Specifically, it does not provide:

- methods and procedures for recording financial data (such as how to record entries in journals and ledgers);
- methods and procedures for reporting financial data (such as the actual preparation of financial reports from the ledgers);
- methods and procedures for utilizing financial data (such as budgeting and making decisions about the financial position of the LEA).

These methods and procedures are presented in *Principles of Public School Accounting*, a supplement to this publication. As a supplement, it uses the classifications and standard terminology included herein to illustrate the principles of public school accounting.

Because these two documents have been designed to complement one another, the following design criteria have been applied:

1. *Financial Accounting* is used to describe the account classification system, to explain the design of that system, and to show how it can be implemented Statewide or in the LEA;
2. *Principles* describes how that system can be used by the LEA. It will be structured to minimize duplication with this publication.

Handbook III contains a description of how a property accounting system interacts with the financial system.

Chapter 2

Uses of the Account Classification System

The purposes of this chapter are to: (1) describe the need for and advantages of the account classification system contained in this publication; (2) define the systems framework envisioned in the coding structure; (3) clarify the multiple uses that can and should be made of that coding structure; and (4) help the reader understand what may appear to be an imposing system.

Users of the LEA Financial Reports

Educational accounting and financial reporting systems must satisfy a number of objectives simultaneously. To quote GAAFR: "... governmental accounting exists for the purpose of providing complete and accurate financial information, in proper form and on a timely basis, to the several groups of persons responsible for, and concerned with, the operations of governmental units and agencies ..."[1]

The groups most interested in the output of the financial reporting system are: school administrators, school boards and other governing units, Congress and State legislative bodies, creditors, and the general public, including taxpayers.[2]

School Administrators and Other Employees

First and foremost, the *Financial Accounting* account classification system is used by school administrators. They must rely on financial reports to evaluate past performance, to aid in day-to-day decision-making and to inform the general public.

Budgeting, an important managerial tool for the public school administrator, relies upon correct and properly classified accounting information. The expenditure dimensions used here offer the administrator a variety of methods for budgeting and permit local judgment about the most appropriate technique. Additionally, the accounting system satisfies the administrator's obligation to ensure compliance with the legal, regulatory and fiduciary responsibilities of his position of public trust. This publication is designed to meet these overlapping requirements.

School Boards and Other Governing Units

School boards and other governing units have both a responsibility and an intense interest in the operation of the school system. The school board is responsible for establishing policies and for overseeing and appraising the administrator as he or she carries out these policies. The school board thus needs timely warning in case situations develop that require corrective action. The board also needs information as a basis for judging both the efficiency of the administration and its effectiveness in complying with policies and restrictions. Some of this information can be provided by general purpose financial reports. Comparable information obtained about other LEA's also is needed as a basis for comparison.

Congress and State Legislative Bodies

The U.S. Congress and the State legislatures provide about half of the resources for the operation of LEA's in the country today. Accordingly, they need information on the schools' operations as a basis for deciding whether to commit additional resources, and how much. Additionally, governance units need cumulative information (in compatible format) about the operations of groups of LEA's in order to formulate funding policies. To this end, legislators are interested in such matters as:

- the ways in which local, State and Federal programs interact within specific operational areas;

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[1] National Committee on Governmental Accounting, *Governmental Accounting, Auditing and Financial Reporting*, published by Municipal Finance Officers Association, Chicago, Illinois, 1968, page 1.

[2] Much of the substance of this section is adapted from Robert N. Anthony, *Financial Accounting in Non-Business Organizations, an Exploratory Study of Conceptual Issues*, under contract to the Financial Accounting Standards Board, Stamford, Conn., 1978.

- profiles of school finance structures as they relate to tax resources; and
- the impact (and cost) of programs resulting from specific legislative initiatives.

Hence, characteristics of the accounting and reporting system of interest to State and Federal legislators are comparability of data, ability to achieve a variety of classifications, and timeliness in reporting.

Creditors and Potential Creditors

In governmental accounting, creditors are considered to include bondholders and prospective bondholders, commercial banks, vendors, and others who have extended credit, or who are considering extending credit, to the LEA. Typically, they would be interested in the financial position of the organization, its operating performance, and its likely sources and uses of funds as indications of the probability that the bonds or loans will be repaid in full and on time.

The General Public

With regard to the general public's interest, Anthony says: "In theory, a governing body represents the interest of an organization's constituents (taxpayers, members, the general public, etc.). In fact, however, the constituents need to check on how well governing bodies do represent their interests. In a general way, the interests of constituents are similar to those of resource providers: they want to know the nature of the organization's activities and how effectively and efficiently it was managed. Constituents have a more personal interest in these matters, however. Taxpayers want to know about the services furnished by the governmental unit. . . An American Accounting Association committee states bluntly that an objective of financial statements is 'to provide information on which constituents can base a decision to retain or replace incumbents.' "[3]

The account classification system presented here is designed to enable LEA's to produce the financial reports necessary to better meet all of these potential uses.

What Is an Accounting System?

What is an accounting system? How does it go about serving the diverse needs of its users? An accounting system is that combination of people, equipment, forms, methods and procedures organized to record financial activity and to display that activity in the financial reports. A primary purpose of an accounting system is to produce financial information organized in various ways for various uses.

Financial Reports

The financial reports necessary in an LEA fall into two major groupings: internal and external. Some examples of the internal reports include:

- comparison of budgeted vs. actual revenues and expenditures;
- cash flow projection;
- building operation and maintenance costs, by building; and
- the expenditure accounts, showing activity during the last reporting period.

External financial reports are produced by the LEA to satisfy the needs of the various users who are not a part of the LEA. There are a variety of types of external reports defined by the NCGA in GAFR. This document lists the comprehensive annual financial report, the external general purpose financial statements (see appendix A), and the condensed summary financial data among the external reports. With regard to the first two types of reports, GAFR says:

> "The comprehensive annual financial report is the governmental unit's official annual report and should also contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data.
>
> "Governmental units may issue the general purpose financial statements separately from the comprehensive annual financial report. These may be issued for inclusion in official statements for bond offerings and for widespread distribution to users requiring less detailed information about the governmental unit's finances than is contained in the comprehensive annual financial report.
>
> "The major differences between the general purpose financial statements and the other statements in the comprehensive annual financial report relate to the reporting entity focus and the reporting on finance-related legal and contractual provisions that differ from GAAP. The comprehensive annual financial report includes (1) both individual fund and account group data and aggregate data by fund types, together with introductory, supplementary, and statistical information; and (2) schedules essential to demonstrate compliance with finance-related legal and contractual provisions. The general purpose financial statements present only aggregate data by fund type and account group, together with notes to the financial statements that are

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[3] Ibid., p. 44.

essential to fair presentation, including disclosures of material violations of finance-related legal and contractual provisions and other important matters that are not apparent from the face of the financial statements."[4]

Other external reports generally are of a special purpose nature. They may include such reports as:

- general financial/statistical summaries for use by legislators;
- specific reports of certain revenues and expenditures by program, for use by the funding source(s); and
- program cost reports (table 8).

The Accounting System

The accounting system is the means by which financial data are captured during actual operation of the LEA, recorded in the books of account, and then analyzed to produce the various kinds of reports needed. Financial transactions can be classified to facilitate their accumulation in the categories needed on the required reports. The guidelines here provide a classification structure (figure 1) which will meet most of the accounting system's needs and will provide comparability of reported data when reports from different LEA's are combined, compared, or both.

Basic Philosophy of *Financial Accounting*

Several criteria are inherent in the design of the account classification structure in this publication. Taken together, they support the needs expressed above. They are:

1. *The chart of accounts encourages full disclosure of the financial position of the LEA.* Emphasis is placed on the accurate classification of financial transactions. Expenditures are recorded in the accounting categories applicable, regardless of the implications of some of those decisions;
2. *Comprehensiveness of financial reporting is encouraged.* The LEA should incorporate all financial activities into a single accounting and reporting system for full disclosure. The account classifications here encourage this procedure. Accounts for such activities as food services, student activities, community services and commercial-like enterprises all should be included in the financial reports of the LEA;
3. *Simplified reporting is encouraged.* GAFR encourages using the minimum number of funds necessary for legal and operational use. Only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. Many people think that LEA's aid financial statement readers by consolidating funds and organizing the reports better;
4. *Financial reporting emphasizes the results of LEA operations more than the resources applied.* The account code structure emphasizes program accounting and the application of supporting services costs to the "products" of the educational enterprise;
5. *The account classification system is flexible: it meets the needs of both small and large LEA's while retaining comparability of reported data.* The guidelines here include a minimum list of accounts essential for Federal reporting. They also provide a variety of optional classifications for LEA's interested in a more comprehensive approach to financial accounting and reporting;
6. *The classification of accounts and the recommended reporting structure remain in accordance with generally accepted accounting principles.*

The *Financial Accounting* Account Classification Structure

This publication provides for classifying three basic types of financial activity: revenues and other sources of funds; expenditures and other uses of funds; and transactions affecting the balance sheet only. For each type of transaction, the specific account code is made up of a combination of classifications called dimensions. Each dimension describes one way of classifying financial activity. The dimensions applicable to each type of transaction are:

Revenues	**Expenditures**	**Balance Sheet**
Fund	Fund	Fund
Revenue Source	Program	Balance Sheet Account
Project/Reporting	Function	
	Object	
	Project/Reporting	
	Level of Instruction	
	Operational Unit	
	Subject Matter	
	Job Classification	
	Special Cost Center	

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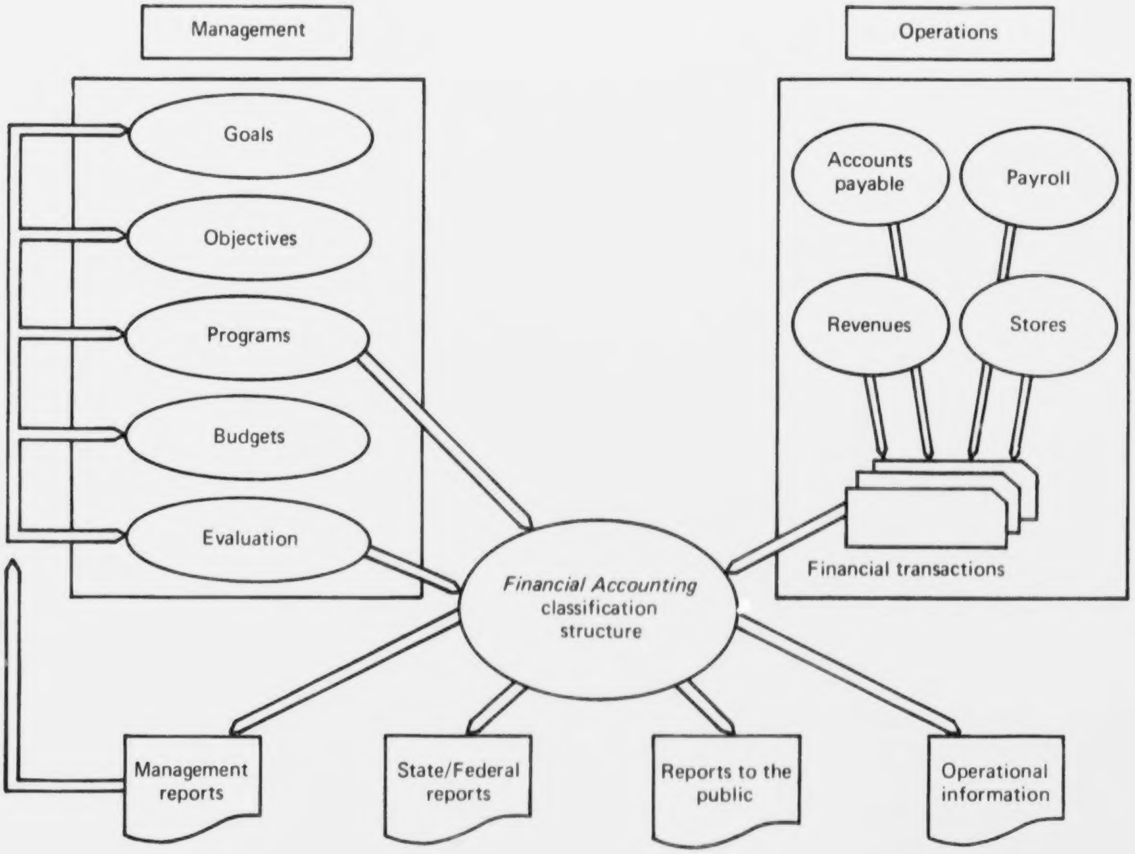
[4] National Council on Governmental Accounting, *Governmental Accounting and Financial Reporting Principles*, published by Municipal Finance Officers Association, Chicago, Illinois, March 1979, p. 19.

Figure 1. – *Financial Accounting* and the financial management system of the LEA


Management
Goals
Objectives
Programs
Budgets
Evaluation
Operations
Accounts payable
Payroll
Revenues
Stores
Financial transactions
Financial Accounting classification structure
Management reports
State/Federal reports
Reports to the public
Operational information

In this section, the purpose and uses of each of these dimensions are described.

Expenditure Dimensions

Fund

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources. It also contains all related liabilities and residual equities or balances, or changes therein.[5]

Funds are established to carry on specific activities or attain certain objectives of an LEA according to special legislation, regulations, or other restrictions.

Program

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. This dimension provides the LEA the framework for classifying expenditures by program to determine cost. Using this dimension allows certain support service costs to both the program and the function to be classified concurrently.

Function

The function describes the activity for which a service or material object is acquired. The functions of an LEA are classified into five broad areas: Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction Services, and Other Outlays. Functions and subfunctions consist of activities which have somewhat the same general operational objectives. Furthermore, categories of

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[5] National Council on Governmental Accounting, *Governmental Accounting and Financial Reporting, Statement 1*, published by Municipal Finance Officers Association, Chicago, Illinois, March 1979, p. 2.

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activities comprising each of these divisions and subdivisions are grouped according to the principle that the activities should be combinable, comparable, relatable and mutually exclusive.

As used here, neither programs nor functions are related directly to the organization of a particular LEA, although there may be a close correspondence. Organization and responsibilities vary substantially from one LEA to another. Hence, it is not considered practical to attempt to align programs or functions and organization units for purposes of reporting responsibilities. Instead, the operational unit dimension should be used.

Most SEA's will require reporting at the one- or two-digit level of program and the three-digit level of function. The lower levels of the program and function dimensions are used to distribute costs in more detail. This detailed breakdown usually will be used only by the larger LEA's.

Object

The object is the service or commodity bought. This publication identifies several major object categories. These categories are divided into sub-objects for more detailed accounting.

Project/Reporting

The project/reporting code (formerly "source of funds") permits LEA's to accumulate expenditures to meet a variety of specialized reporting requirements at local, State and Federal levels. The first two digits identify the funding source, authority, or expenditure purpose for which a special record or report of revenues, expenditures, or both is required. The third digit is available to identify particular projects, the fiscal year of the appropriation within that funding source, or both.

Level of Instruction

This dimension permits segregation of expenditures by organizational level. Many States differentiate elementary and secondary costs in order to calculate interdistrict tuition rates, general State aid, or both.

Operational Unit

LEA's commonly use this dimension: (1) to identify attendance centers; (2) as a budgetary unit or cost center designator; (3) as a means of segregating costs by building structure; and (4) as a location code for payroll check distribution.

These usages sometimes coincide but more often conflict with each other. For example, the first two are most frequently used to manage the school system's finances. However, it is possible to have more than one attendance center within a budgetary unit, or vice versa. Hence, a classification designed for financial management often represents a combination of the two uses. This combined classification may conflict, however, with the requirements of the maintenance department to capture the costs associated with operating and maintaining the various physical structures (option 3 above).

Therefore, an LEA wishing to use this dimension must first have its objectives clearly in mind; then design the actual classifications. If too many conflicting objectives exist, it may be necessary to create extra dimensions in the LEA's chart of accounts to accommodate these needs.

Since the operational unit dimension is needed only at the local level in most States, it is often left out of State manuals or included showing examples of its use only.

Subject Matter

The subject matter dimension describes a group of related subjects. This dimension permits the costs of providing instruction for particular subject areas to be accumulated. The classifications used here are consistent with the first two digits of the subject matter classification in Handbook VI.[6]

Job Classification

This dimension enables LEA's to classify expenditures for salaries and employee benefits by the employees' job classifications. (It should not be used with object codes 300-900.) There are at least three ways in which this dimension is used in school accounting: (1) classifying payroll costs for personnel purposes; (2) segregating certified and non-certified salaries and benefits; and (3) accumulating payroll costs by bargaining unit for purposes of labor negotiations.

Special Cost Center

Finally, it is recognized that LEA's utilize many other methods of classifying expenditures for particular purposes. None of these methods is used with enough regularity for inclusion here, but when used, they are important. These codes may be added to the expenditure account designator at the discretion of the SEA or LEA. Some of the possible additional dimensions are:

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[6] Putnam, John F., and W. Dale Chismore, *Standard Terminology for Curriculum and Instruction in Local and State School Systems*, Washington, D.C.: U.S. Government Printing Office, 1970. U.S. Department of Health, Education and Welfare; Office of Education, State Educational Records and Reports Series, Handbook VI, Bulletin OE 23052.

- term;
- course;
- work order;
- bus route or vehicle;
- State (or other supervisory authority) code;
- Federal Common Accounting Number (CAN)

In addition, in automated systems, there may be a need to add some codes for use by the computer. These might include:

- a *transaction* code to route the transaction through the system and post the correct files and fields in the data record;
- a *fiscal year* code, to assist with closing out one year while beginning to process activity for the new year;
- a *reporting level* code to assist in organizing report contents and subtotals;
- a *district* or *other organizational unit* code in a multi-district system.

Revenue Dimensions

Fund

See Expenditure Dimensions.

Revenue Source

This dimension permits segregation of revenues by source. The primary classification differentiates local, intermediate, State and Federal revenue sources. Revenues from restricted sources would be further classified using the project/reporting dimension.

Project/Reporting

See Expenditure Dimensions.

Balance Sheet Dimensions

Fund

See Expenditure Dimensions.

Balance Sheet Account

These classifications correspond to the items normally appearing on the balance sheet.

The Minimum Chart of Accounts

Used in its entirety, the handbook classification structure (particularly the expenditure classifications) can generate amounts of detailed data. However, much of the classification system described herein is offered for the optional use of the LEA. Hence, an LEA may choose, in a number of ways, which parts of the system it needs or wants to use. It may choose:

1. Not to use certain dimensions at all;
2. To consolidate certain dimensions in its own local chart of accounts. (A discussion of some of the possibilities for accomplishing this can be found starting on page 48.)
3. To use less (or more) than the number of digits described for any particular dimension in this publication.

Whatever course an LEA chooses, it must follow a certain minimum list of these classifications to meet Federal and State reporting requirements. This list is referred to as the "minimum chart of accounts." (See appendix B for an example and chapter 4 for suggestions for constructing an LEA chart of accounts from the lists in this publication.)

Normally, in a State manual, any Federal minimum chart of accounts would be augmented by the additional categories, dimensions, or both needed for State reporting purposes and published as the State minimum chart of accounts. Using this State publication, the LEA's first task then is to decide what additional classifications it wishes to use for its own purposes.

Budgeting

The *Financial Accounting* classification system offers a variety of ways in which LEA's can prepare a budget. Generally, an LEA will want to budget items for the various object classifications within program, subject matter, operational unit or function–or some combination of those dimensions. Budgets also are made up for separate projects using the project/reporting code as the key.

Because of the flexibility and comprehensive uses of this classification system, there is a tendency for budgets to become extremely detailed, with individual budget line items being drawn up for comparatively small amounts of money. This leads to needless restrictions on the budget manager, and, in some systems, can greatly increase the paperwork required for budget adjustment. To alleviate this problem, the LEA should draw and maintain its legal appropriation at a higher level of classification than the level at which it keeps its accounting records. More detailed budgets may be maintained for the use of individual budget managers.

For example, suppose that ledgers are to be maintained on expenditure detail for the following accounts:

Program	Object	Description	Amount	Subtotal
310		Vocational–agriculture		
	110	Regular salaries	$60,000	
	120	Temporary salaries	4,000	
	220	Social security	3,640	
	230	Retirement contributions	3,000	
	250	Unemployment compensation	500	
	430	Repair of equipment	800	
	442	Rental of equipment	1,200	
	530	Telephone and postage	500	
	580	Travel	500	
	610	Supplies	3,200	
	640	Books and periodicals	2,250	
		Total – Vocational–agriculture		$79,590

The appropriation for these accounts might appear as follows:

Program	Major object	Description	Appropriation	Subtotal
310		Vocational–agriculture		
	100	Salaries	$64,000	
	200	Employee benefits	7,140	
	400	Purchased property services	2,000	
	500	Other purchased services	1,000	
	600	Supplies	5,450	
		Total – Vocational–agriculture		$79,590

Hence, in this example, there would be 5 line items* rather than 12.

A similar practice can be followed for certain parts of the function dimension. As an example of how that might work with the function codes, a detailed budget might read as follows:

Function	Object	Description	Amount
2620		Operation of buildings services	
	110	Salaries	$110,000
	210	Group insurance	3,500
	220	Social security	7,050
	230	Retirement contributions	7,700
	411	Water/sewer	10,500
	421	Disposal services	18,000
	423	Cleaning services	25,000
	430	Repair and maintenance	8,000

Function	Object	Description	Amount	
	520	Insurance	5,250	
	610	Supplies	15,500	
	621	Gas	32,000	
	622	Electricity	17,500	
	624	Oil	40,000	
		Subtotal		$300,000
2630		Care and upkeep of grounds services		
	110	Salaries	65,000	
	210	Group insurance	2,000	
	220	Social security	3,800	
	230	Retirement contributions	3,750	
	424	Purchased lawn care	20,000	
	423	Snow plowing	5,000	
	441	Rental of land	1,000	
	610	Supplies	17,500	
	626	Gasoline	2,200	
	730	Equipment	25,400	
		Subtotal		$145,650
		Total		$445,650

The appropriation for these items might be expressed as follows:

Function	Object	Description	Amount	
2600		Operation and maintenance of plant		
	100	Salaries	$175,000	
	200	Employee benefits	27,800	
	400	Purchased property services	87,500	
	500	Other purchased services	5,250	
	600	Supplies	124,700	
	700	Property	25,400	
		Total		$445,650

In this case, both the function and the object classifications were consolidated to a higher level for appropriation purposes. Obviously, many other similar combinations are possible. For instance, an LEA may choose to budget on a district-wide basis, but keep track of actual costs by cost center (operational unit).

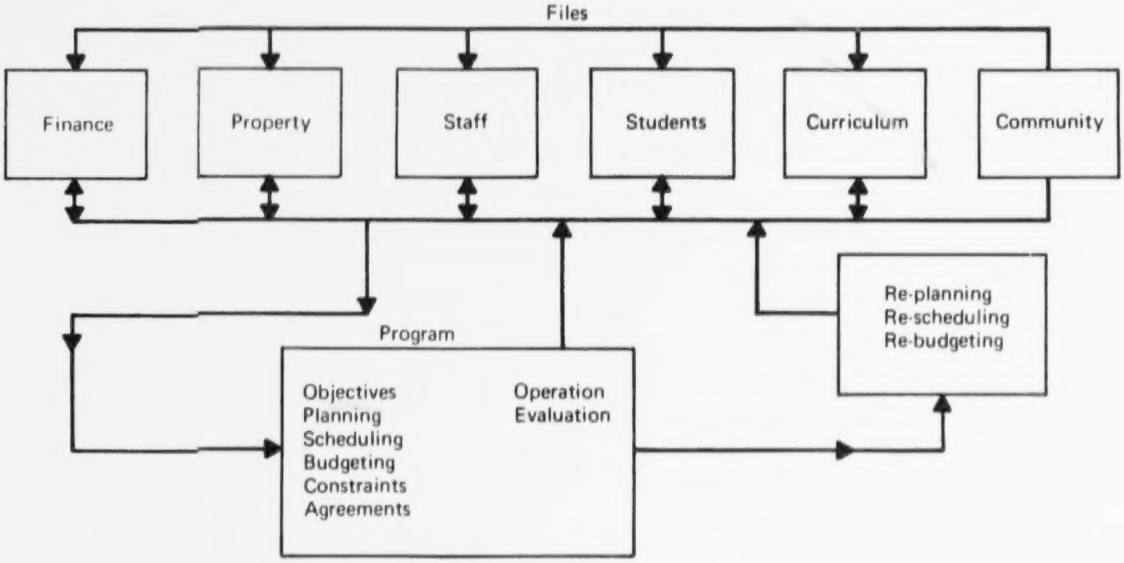
Relationship to an Educational Information System

The account structure used herein deals with only one component, albeit an important one, in the design of an overall educational information system: the finance component. Other major components are the property system, the staff records system, the student records system, the curriculum or program component, and the community services component. Some organization of the activities of each of these areas is necessary to the proper operation and oversight of the LEA. Standardization of the different information flows is necessary if the operations of one LEA are to be compared over time or with those of another, or if data from the operations of many LEA's are to be consolidated accurately.

The various components of the educational information system interact in at least two ways. At the operational level, information entering the system through one subsystem (component) may and frequently does affect the files of another subsystem. For example, gross and net pay information created in the payroll system (which is part of the finance subsystem) will be posted to the employee's master record, which is also used in the staff subsystem.

The other interaction is in methods of classification. It often is necessary to classify the data in one component's files using the classifications primarily applicable to another component. For example, a subject matter classification from the curriculum component is often used to categorize expenditures. Figure 2 illustrates these interactions.

Figure 2. – School management information system


Files
Finance
Property
Staff
Students
Curriculum
Community
Re-planning
Re-scheduling
Re-budgeting
Program
Objectives
Planning
Scheduling
Budgeting
Constraints
Agreements
Operation
Evaluation

Chapter 3

Account Classifications

This chapter contains a summary of the account classifications and definitions provided for LEA use. Specific descriptions for these classifications and definitions are included in chapter 6. This chapter is divided into four sections:

- Fund Classifications
- Revenue Classifications
- Expenditure Classifications
- Balance Sheet Account Classifications.

Fund Classifications

Governmental accounting systems should be organized and operated on a fund basis. The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing financial transactions in a single accounting entity. Instead, the required accounts are organized on the basis of funds, each of which is completely independent of any other. Each fund must be so accounted for that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained. These purposes are accomplished by providing a complete self-balancing set of accounts for each fund which shows its assets, liabilities, reserves, fund balances or retained earnings, revenues, and expenditures or expenses.

A fund is a fiscal and accounting entity, with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, or changes therein.[1] If one were to compare fund accounting with commercial accounting, each fund would equate to an independent business, with a separate set of records owned by one entity, the LEA.

The classifications of fund and account groups included here are similar to those used by other State and local governmental units. They consist of the following fund and account groups:

Governmental Funds–The funds through which most LEA functions are typically financed. The reporting focus of these funds is upon determining financial position rather than net income;

Proprietary Funds–The funds used to account for LEA activities that are similar to business operations in the private sector; or where the reporting focus is on determining net income, financial position and changes in financial position;

Fiduciary Funds–The funds used to account for assets held by an LEA as trustee or agent. Each trust fund is treated for accounting measurement purposes in a manner similar to either a governmental fund or a proprietary fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds and pension trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations;

Account Groups–Groups of accounts used to record and control the LEA's general fixed assets and unmatured general long-term liabilities. Long-term liabilities of proprietary and trust funds should not be accounted for here but should be kept within those individual funds.

The four classifications listed above are divided into the following categories, called fund types:

- Governmental Funds
  1. General Fund
  2. Special Revenue Funds
  3. Capital Projects Funds
  4. Debt Service Funds
- Proprietary Funds
  5. Enterprise Funds
  6. Internal Service Funds
- Fiduciary Funds
  7. Trust and Agency Funds
- Account Groups
  8. General Fixed Assets
  9. General Long-Term Debt

The descriptions of these nine categories can be found in chapter 6.

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[1] National Council on Governmental Accounting, *Governmental Accounting and Financial Reporting, Statement 1*, published by Municipal Finance Officers Association, Chicago, Illinois, March, 1979, p. 2.

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The fund types just described closely follow those illustrated in *Statement 1*. The student activity fund, which is unique to schools, is not addressed above.

The following general principles apply to student activity funds:

1. The school board is responsible for all student activity funds in the district;
2. The primary criterion for determining how these funds should be classified should be: "Who determines how the money is spent?" Thus, athletic funds would generally be classified as governmental funds, while funds for clubs and class activities generally would be included in the fiduciary funds;
3. Any student activity funds classified as governmental should be budgeted and controlled in the same manner as other governmental funds.

Principles of Public School Accounting provides a more detailed discussion of student activity funds.

Classifying Revenues and Other Fund Sources

Revenues are classified by type and source for the various funds of an LEA. Revenues are defined as additions to assets which do not increase any liability, do not represent the recovery of an expenditure, and do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets.

Revenues are classified into four major sources (defined below): local, intermediate, State and Federal.

1. Revenue from *local* sources is the amount of money produced within the boundaries of the LEA and available to the LEA for its use. Money collected in the same amount by another governmental unit as an agent of the LEA (less collection costs) is recorded as revenue from local sources. Shared revenue (revenue levied by another governmental unit, but shared in proportion to the amount collected within the LEA) is also recorded as revenue from local sources;
2. Revenue from *intermediate* sources is revenue from funds collected by an intermediate administrative unit, or a political subdivision between the LEA and the State, and distributed to LEA's in amounts that differ in proportion to those which were collected within such systems.

   An illustration of revenue from intermediate sources is a sales tax levied and collected by a county government, which then distributes the money collected to the LEA's on a flat grant or equalization-aid basis. In this example, on the books of a city school system, the county would be the intermediate unit and the municipality would be classified as another local governmental unit;
3. Revenue from *State* sources is revenue from funds produced within the boundaries of and collected by the State and distributed to LEA's in amounts different proportionately from those which were collected within such LEA's;
4. Revenue from *Federal* sources is revenue from funds collected by the Federal Government and distributed to LEA's in amounts that differ in proportion from those which were collected within such LEA's. In determining whether a revenue is a Federal revenue, it is unimportant whether the funds are distributed directly to the LEA by the Federal Government or through some intervening agency such as the State. When an LEA does not have a method for determining the prorated share of Federal, State and other sources of revenue in a commingled grant, the distributing agency should provide this information to the local agency. When recording reimbursement for indirect costs, the revenue should be recorded in the fund and revenue source classification for the program for which the indirect costs are claimed.

Within each source of revenue, individual items of revenue are classified into basic groupings of similar types of revenue such as taxes or tuition. These group headings are *not* account titles; they are used only as a convenient means of identifying specific revenue accounts for reporting purposes.

The revenue source classification includes "other sources" which constitute fund revenues in a strict fund accounting context, but are not considered revenues to the LEA. They include the sale of bonds and the receipt of interfund transfers. These other sources are described in the 5000 accounts.

The revenues and other source classifications are listed in table I.

Project/Reporting Dimension

When an LEA receives money for restricted uses, it frequently must prepare a report showing the amount received and the amounts expended for those purposes. When revenues of this nature are received, the LEA would assign a project/reporting classification to the revenue transactions. The structure and classification of the project/reporting codes assigned would be identical to those used to classify expenditures. These codes are explained under Classification of Expenditures and Other Uses of Funds (pages 32-33).

Table 1.–Classifications of revenues and other sources and funds in which these classifications are frequently found

	Classification of revenues and other sources	Def. page nos.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds
1000	**Revenue from local sources**								
1100	Taxes levied/assessed by the LEA								
1110	Ad valorem taxes		X	X	X	X			
1120	Sales and use taxes		X						
1130	Income taxes		X						
1140	Penalties and interest on taxes		X	X		X			
1190	Other taxes		X	X		X			
1200	Revenue from local governmental units other than LEA's								
1210	Ad valorem taxes		X	X		X			
1220	Sales and use taxes		X						
1230	Income taxes		X						
1240	Penalties and interest on taxes		X	X		X			
1280	Revenue in lieu of taxes		X	X		X			
1290	Other taxes		X	X		X			
1300	Tuition								
1310	Tuition from individuals		X						
1320	Tuition from other LEA's within the State		X						
1330	Tuition from other LEA's outside the State		X						
1340	Tuition from other sources		X						

Table 1.–Classifications of revenues and other sources and funds in which these classifications are frequently found–Continued

	Classification of revenues and other sources	Def. page nos.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds
1400	Transportation fees								
1410	Transportation fees from individuals		X						
1420	Transportation fees from other LEA's within the State		X						
1430	Transportation fees from other LEA's outside the State		X						
1440	Transportation fees from other sources		X						
1500	Earnings on investments								
1510	Interest on investments		X	X	X	X	X	X	X
1520	Dividends on investments								X
1530	Gains or losses on sale of investments		X	X	X	X	X	X	X
1540	Earnings on investment in real property		X						X
1600	Food services								
1610	Daily sales–reimbursable programs								
1611	Daily sales–school lunch program						X		
1612	Daily sales–school breakfast program						X		
1613	Daily sales–special milk program						X		

Table 1.–Classifications of revenues and other sources and funds in which these classifications are frequently found–Continued

Classification of revenues and other sources	Def. page nos.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds
1620 Daily sales–non-reimbursable programs						X		
1630 Special functions						X		
1700 Student activities								
1710 Admissions		X				X		
1720 Bookstore sales						X		
1730 Student organization membership dues and fees						X		X
1740 Fees		X				X		
1790 Other student activity income		X				X		X
1800 Community services activities		X				X		
1900 Other revenue from local sources								
1910 Rentals		X						X
1920 Contributions and donations from private sources		X						X
1930 Gains or losses on sale of fixed assets (proprietary funds only)						X	X	
1940 Textbook sales and rentals								
1941 Textbook sales		X				X		
1942 Textbook rentals		X				X		
1950 Services provided other LEA's								
1951 Services provided other LEA's within the State		X				X	X	

Table 1.–Classifications of revenues and other sources and funds in which these classifications are frequently found–Continued

Classification of revenues and other sources		Def. page nos.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds
1952	Services provided other LEA's outside the State		X				X	X	
1960	Services provided other local governmental units		X				X	X	
1970	Services provided other funds							X	
1990	Miscellaneous		X	X	X	X	X	X	
2000	**Revenue from intermediate sources**								
2100	Unrestricted grants-in-aid		X						
2200	Restricted grants-in-aid		X	X					
2800	Revenue in lieu of taxes		X		X				
2900	Revenue for/on behalf of the LEA		X						
3000	**Revenue from State sources**								
3100	Unrestricted grants-in-aid		X						
3200	Restricted grants-in-aid		X	X			X		
3800	Revenue in lieu of taxes		X		X	X			
3900	Revenue for/on behalf of the LEA		X						
4000	**Revenue from Federal sources**								
4100	Unrestricted grants-in-aid direct from the Federal Government		X						
4200	Unrestricted grants-in-aid from the Federal Government through the State		X						

Table 1.–Classifications of revenues and other sources and funds in which these classifications are frequently found–Continued

	Classification of revenues and other sources	Def. page nos.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds
4300	Restricted grants-in-aid direct from the Federal Government		X	X	X		X		
4500	Restricted grants-in-aid from the Federal Government through the State		X	X			X		
4700	Grants-in aid from the Federal Government through other agencies		X						
4800	Revenue in lieu of taxes		X						
4900	Revenue for/on behalf of the LEA		X						
5000	**Other sources (governmental funds only)**								
5100	Sale of bonds				X	X			
5110	Bond principal				X	X			
5120	Premium				X	X			
5130	Accrued interest				X	X			
5200	Interfund transfers		X	X	X	X	X	X	X
5300	Sale or compensation for loss of fixed assets		X	X	X	X			X

Classifying Expenditures and Other Fund Uses

The expenditure classifications are divided into two groups of dimensions: *Dimensions Essential for Reporting Expenditures* at the Federal level, and *Optional Dimensions Available for LEA Management.*

The classifications which are essential to meet many of the important Federal (and most State) reporting requirements are found within the following dimensions:

- Program
- Function
- Object
- Project/Reporting (formerly called Source of Funds)

A number of additional expenditure dimensions are described here for use at the option of the SEA or LEA. These include:

- Level of Instruction
- Operational Unit
- Subject Matter
- Job Classification
- Special Cost Center

Dimensions Essential for Reporting Expenditures

Dimensions containing the essential classifications are shown below. Within these dimensions, only certain classifications are needed for reporting. The accounts essential for reporting are included in appendix B.

Fund

Fund is not an essential dimension for Federal reporting. However, it is required by most States and for the LEA to be in compliance with GAAP. The fund codes are listed at the beginning of this chapter (p. 17).

Program

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. This dimension provides LEA's the framework to classify expenditures by program to determine cost. Using this dimension allows certain support service costs to be classified to both the function and the program.

Code	*Program*	*Definition page number*
100	**Regular Programs–Elementary/Secondary**	84
200	**Special Programs**	84
210	Mentally Retarded	84
211	Educable Mentally Retarded	84
212	Trainable Mentally Retarded	84
220	Physically Handicapped	84
221	Hard of Hearing	84
222	Deaf	84
223	Deaf-Blind	84
224	Visually Handicapped	84
225	Speech Impaired	85
226	Crippled	85
227	Other Health Impaired	85
230	Emotionally Disturbed	85
240	Learning Disabled	85
250	Culturally Deprived	85
260	Bilingual	85
270	Gifted and Talented	85

Code	*Program*	*Definition page number*
300	**Vocational Programs**	85
310	Agriculture	85
320	Distributive Education	85
330	Health Occupations	85
340	Home Economics	85
341	Occupational	85
342	Consumer and Homemaking	85
350	Industrial Arts	85
360	Office Occupations	86
370	Technical Education	86
380	Trades and Industrial Occupations	86
390	Other Vocational Programs	86
400	**Other Instructional Programs–Elementary/Secondary**	86
410	School-Sponsored Cocurricular Activities	86
420	School-Sponsored Athletics	86
490	Other	86
500	**Nonpublic School Programs**	86
600	**Adult/Continuing Education Programs**	86
700	**Community/Junior College Education Programs**	86
800	**Community Services Programs**	86
810	Community Recreation	87
820	Civic Services	87
830	Public Library Services	87
840	Custody and Child Care Services	87
850	Welfare Activities	87
890	Other Community Services	87
900	**Enterprise Programs**	87
910	Food Services	87

Code	Program	Definition page number
990	Other Enterprise Programs	87
000	**Undistributed Expenditures**	87

Function

The function describes the activity being performed for which a service or material object is acquired. The functions of an LEA are classified into five broad areas: Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction Services, and Other Outlays. Functions and subfunctions consist of activities which have somewha the same general operational objectives. Furthermore categories of activities comprising each of these divisions and subdivisions are grouped according to th principle that the activities should be combinable, comparable, relatable and mutually exclusive.

Code	Function	Definition page numb
1000	**Instruction**	88
2000	**Support Services**	88
2100	Support Services–Students	88
2110	Attendance and Social Work Services	88
2111	Supervision of Attendance and Social Work Services	88
2112	Attendance	88
2113	Social Work	88
2114	Student Accounting	88
2119	Other Attendance and Social Work Services	89
2120	Guidance Services	89
2121	Supervision of Guidance Services	89
2122	Counseling	89
2123	Appraisal	89
2124	Information	89
2125	Record Maintenance	89
2126	Placement	89
2129	Other Guidance Services	90
2130	Health Services	90
2131	Supervision of Health Services	90
2132	Medical	90
2133	Dental	90
2134	Nursing	90
2139	Other Health Services	90
2140	Psychological Services	90
2141	Supervision of Psychological Services	90
2142	Psychological Testing	90
2143	Psychological Counseling	91
2144	Psychotherapy	91
2149	Other Psychological Services	91

Code	*Function*	*Definition page number*
2150	Speech Pathology and Audiology Services	91
2151	Supervision of Speech Pathology and Audiology Services	91
2152	Speech Pathology	91
2153	Audiology	91
2159	Other Speech Pathology and Audiology Services	91
2190	Other Support Services–Students	91
2200	Support Services–Instructional Staff	91
2210	Improvement of Instruction Services	92
2211	Supervision of Improvement of Instruction Services	92
2212	Instruction and Curriculum Development	92
2213	Instructional Staff Training	92
2219	Other	92
2220	Educational Media Services	92
2221	Supervision of Educational Media Services	92
2222	School Library	92
2223	Audiovisual	92
2224	Educational Television	93
2225	Computer-Assisted Instruction	93
2229	Other Educational Media Services	93
2290	Other Support Services–Instructional Staff	93
2300	Support Services–General Administration	
2310	Board of Education Services	93
2311	Supervision of Board of Education Services	93
2312	Board Secretary/Clerk	93
2313	Board Treasurer	93
2314	Election	93
2315	Tax Assessment and Collection	93
2316	Staff Relations and Negotiation	94
2319	Other Board of Education Services	94
2320	Executive Administration Services	94
2321	Office of the Superintendent	94
2322	Community Relations	94
2323	State and Federal Relations	94
2329	Other Executive Administration Services	94
2330	Special Area Administration Services	94
2400	Support Services–School Administration	94
2410	Office of the Principal Services	94

Code	*Function*	*Definition page number*
2490	Other Support Services–School Administration	95
2500	Support Services–Business	95
2510	Fiscal Services	95
2511	Supervision of Fiscal Services	95
2512	Budgeting	95
2513	Receiving and Disbursing Funds	95
2514	Payroll	95
2515	Financial Accounting	95
2516	Internal Auditing	95
2517	Property Accounting	96
2519	Other Fiscal Services	96
2520	Purchasing Services	96
2530	Warehousing and Distributing Services	96
2540	Printing, Publishing, and Duplicating Services	96
2590	Other Support Services–Business	96
2600	Operation and Maintenance of Plant Services	96
2610	Operation of Buildings Services	96
2620	Care and Upkeep of Grounds Services	96
2630	Care and Upkeep of Equipment Services	97
2640	Vehicle Operation and Maintenance Services (Other than Student Transportation Vehicles)	97
2650	Security Services	97
2690	Other Operation and Maintenance of Plant Services	97
2700	Student Transportation Services	97
2710	Vehicle Operation	97
2720	Monitoring	97
2730	Vehicle Servicing and Maintenance	97
2790	Other Student Transportation Services	98
2800	Support Services–Central	98
2810	Planning, Research, Development, and Evaluation Services	98
2820	Information Services	98

Code	*Function*	*Definition page number*
2821	Supervision of Information Services	98
2822	Internal Information	98
2823	Public Information	98
2824	Management Information	99
2829	Other Information Services	99
2830	Staff Services	99
2831	Supervision of Staff Services	99
2832	Recruitment and Placement	99
2833	Staff Accounting	99
2834	Inservice Training (for non-instructional staff)	99
2835	Health	99
2839	Other Staff Services	99
2840	Data Processing Services	99
2841	Supervision of Data Processing Services	99
2842	Systems Analysis	100
2843	Programming	100
2844	Operations	100
2849	Other Data Processing Services	100
2900	Other Support Services	100
3000	**Operation of Non-Instructional Services**	100
3100	Food Services Operations	100
3200	Other Enterprise Operations	100
3300	Community Services Operations	100
4000	**Facilities Acquisition and Construction Services**	100
4100	Site Acquisition Services	100
4200	Site Improvement Services	100
4300	Architecture and Engineering Services	101
4400	Educational Specifications Development Services	101
4500	Building Acquisition and Construction Services	101
4600	Building Improvements Services	101
4900	Other Facilities Acquisition and Construction Services	101
5000	**Other Uses (governmental funds only)**	101
5100	Debt Service	101
5200	Fund Transfers	101

Object

This dimension is used to describe the service or commodity obtained as a result of a specific expenditure. Several major object categories are identified in this manual. These broad categories are subdivided into sub-objects for more detailed accounting.

Code	*Object*	*Definition page number*
100	**Personal Services–Salaries**	101
110	Of Regular Employees	102
120	Of Temporary Employees	102
130	For Overtime	102
140	For Sabbatical Leave	102
200	**Personal Services–Employee Benefits**	102
210	Group Insurance	102
220	Social Security Contributions	102
230	Retirement Contributions	102
240	Tuition Reimbursement	102
250	Unemployment Compensation	102
260	Workmen's Compensation	102
290	Other Employee Benefits	102
300	**Purchased Professional and Technical Services**	102
310	Official/Administrative	103
320	Professional-Educational	103
330	Other Professional	103
340	Technical	103
400	**Purchased Property Services**	103
410	Utility Services	103
411	Water/Sewer	103
420	Cleaning Services	103
421	Disposal	103
422	Snow Plowing	104
423	Custodial	104
424	Lawn Care	104

Code	*Object*	*Definition page number*
430	Repair and Maintenance Services	104
440	Rentals	104
441	Rental of Land and Buildings	104
442	Rental of Equipment and Vehicles	104
450	Construction Services	104
490	Other Purchased Property Services	104
500	**Other Purchased Services**	104
510	Student Transportation Services	104
511	Student Transportation Purchased from Another LEA Within the State	104
512	Student Transportation Purchased from Another LEA Outside the State	105
519	Student Transportation Purchased from Other Sources	105
520	Insurance, Other than Employee Benefits	105
530	Communications	105
540	Advertising	105
550	Printing and Binding	105
560	Tuition	105
561	To Other LEA's Within the State	105
562	To Other LEA's Outside the State	105
563	To Private Schools	105
569	Other	105
570	Food Service Management	106
580	Travel	106
590	Miscellaneous Purchased Services	106
591	Services Purchased Locally	106
592	Services Purchased from Another LEA Within the State	106
593	Services Purchased from Another LEA Outside the State	106
600	**Supplies**	106
610	General Supplies	107
620	Energy	107
621	Natural Gas	107
622	Electricity	107
623	Bottled Gas	107
624	Oil	107

Code	*Object*	*Definition page number*
625	Coal	107
626	Gasoline	107
629	Other	107
630	Food	107
640	Books and Periodicals	107
700	**Property**	107
710	Land and Improvements (governmental funds only)	107
720	Buildings (governmental funds only)	108
730	Equipment (governmental funds only)	108
731	Machinery	108
732	Vehicles	108
733	Furniture and Fixtures	108
739	Other Equipment	108
740	Depreciation (proprietary funds only)	108
800	**Other Objects**	109
810	Dues and Fees	109
820	Judgments Against the LEA	109
830	Interest	109
840	Contingency (for budgeting purposes only)	109
890	Miscellaneous Expenditures	109
900	**Other Uses of Funds (governmental funds only)**	109
910	Redemption of Principal	109
920	Housing Authority Obligations	109
930	Fund Transfers	109

Project/Reporting

The project/reporting code (formerly source of funds) permits LEA's to accumulate expenditures to meet a variety of specialized reporting requirements at local, State, and Federal levels. It is envisioned as a three-digit code with the format 00X. The first two digits identify the funding source, authority, or expenditure purpose for which a special record or report of revenues, expenditures, or both, is required. The third digit is available to identify particular projects and/or the fiscal year of the specific appropriation within that funding source.

Code	
010-190	Local Projects
200-390	State Projects
400-990	Federal Projects (examples only)
	ESEA Title I – Compensatory (Part A) ESEA Title I – Compensatory (Part B) ESEA Title I – Handicapped ESEA Title I – Migrant ESEA Title IV – Part B – Learning Resources ESEA Title IV – Part C – Innovative ESEA Title VI – Handicapped ESEA Title VII – Bilingual Vocational Education Child Nutrition Program
000	Non-Categorical

For example, the third mini-grant received under ESEA, Title IV-C in the current fiscal year, might be coded '623', where the '6' designates ESEA Title IV, the '2' designates part C of that Title, and the '3' indicates the third mini-grant received by the LEA.

States may wish to be more specific with the assignment of the first two of these three digits in the preparation of State manuals.

Optional Dimensions Available for LEA Management

A number of additional dimensions are available which are in common use in LEA's for management and administration. The use of these dimensions is optional to the LEA (unless otherwise specified by the SEA). These dimensions include:

Level of Instruction

This dimension permits expenditures to be segregated by instructional level. Many States desire to differentiate costs for elementary, secondary, and postsecondary levels of instruction so they can calculate interdistrict tuition rates, compute general State aid, or both. If the SEA requires information reported by level of instruction, this dimension becomes mandatory for LEAs within the State.

Some schools include more than one level of instruction. Should a State require that financial data be reported by level of instruction, such schools might need to keep records for each level. For example, the SEA might define the elementary level of instruction as that provided to students in grades eight and below and secondary as that provided in grades nine and above. The LEAs which operate grade 7-9 junior high schools would then have to maintain record-keeping systems that showed the division of revenues and expenditures according to each level.

Whether or not a State mandate exists for separating expenditures by level, LEAs may choose to make this distinction for local management purposes and would therefore include this dimension in their chart of accounts.

Within a particular State or LEA, a careful definition of the distinction between levels of instruction is needed. If grade span of students served is used to define level of instruction, then grade span of students served by each school can be used for accounting purposes instead of level of instruction.

An example of a classification structure for this dimension, using school organization as its basis, is shown below.

Code level	*Definition page number*
10–Elementary	110
11–Pre-Kindergarten	110
12–Kindergarten	110
19–Other Elementary Grades	110
20–Middle	110
30–Secondary	110
31–Junior High	110
32–Senior High	110
39–Other Secondary	110
40–Postsecondary	110
41–Adult/Continuing	110
42–Junior College	111
00–Districtwide	111

Operational Unit

This dimension has several common usages in LEA's: (1) to identify attendance centers; (2) to designate a budgetary unit or cost center; (3) to segregate costs by building structure; and (4) to locate payroll check distribution.

These usages sometimes coincide, but more often conflict with each other. For example, the first two coding systems are most frequently used to financially manage the school system. However, it is possible to have more than one attendance center within a budgetary unit, or vice versa. Hence, a classification designed for financial management often represents a combination of the two uses. This combined classification may conflict, however, with the maintenance department's requirement to capture the costs associated with operating and maintaining the various physical structures (option 3 above).

Therefore, an LEA wishing to use this dimension must first have its objectives clearly in mind; then design the actual classifications. If too many conflicting objectives exist, it may be necessary to create two dimensions in the LEA's chart of accounts to accommodate these needs.

Since the operational unit dimension is needed only at the local level in most States, it is often left out of State manuals, or included showing examples of its use only. Below are examples of some of the uses.

Example I (Budgetary Units)

01 Purchasing Department
02 Principal's Office
03 Health Department
04 Custodial Office
05 Peter Elementary
06 Smith School
07 Madison High School

Example II (Physical Facilities)

01 Central Administrative Office
02 District Warehouse
03 District Bus Garage
11 Adams Elementary School
21 Churchville Middle School
31 York High School
32 Lincoln Vocation-Technical School
42 Davis Junior College

Example III (Combination of Examples I and II)

04 Central Administrative Office–Purchasing Office
12 Adams Elementary School–Principal's Office
23 Churchville Middle School–Health Department
34 York High School–Custodial Office

Subject Matter

The subject matter dimension describes a group of related subjects. This dimension is provided in order to permit the accumulation of the costs of providing instruction in particular subject areas. The classifications used here are consistent with the first two digits of the subject matter classification in *Handbook VI.*[2]

The LEA may choose to add more categories to this list, increase the size (number of digits) in the code, or both to provide more detailed classification.

Code		*Definition page number*
01	Agriculture	111
02	Art	111
03	Business	111
04	Distributive Education	111
05	English Language Arts	111
06	Foreign Languages	112
07	Health Occupations Education	112
08	Health and Safety in Daily Living, Physical Education and Recreation	112
09	Home Economics	112
10	Industrial Arts	112
11	Mathematics	112
12	Music	112
13	Natural Sciences	112
14	Office Occupations	112
15	Social Sciences	112
16	Technical Education	113
17	Trades and Industrial Occupations	113
18	General Elementary/Secondary Education	113
19	Differentialized Curriculum for Handicapped Students	113
20	Cocurricular Activities	113
21	Safety and Driver Education	113
22	Junior ROTC	113

Job Classification

This dimension enables LEA's to break down expenditures for salaries and employee benefits by the employees' job classification. (It should not normally be used with object codes 300-900.) This dimension is commonly used in school accounting in at least three ways: (1) to classify payroll costs for personnel purposes in accordance with the classifications contained in *Handbook IVR*;[3] (2) to segregate certificated and non-certificated salaries and benefits; and (3) to accumulate payroll costs by bargaining unit for labor negotiations. An example of each method of establishing these codes is shown below.

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[2] Putnam, John F., and W. Dale Chismore, *Standard Terminology for Curriculum and Instruction in Local and State School Systems*, Washington, D.C.: U.S. Government Printing Office, 1970. U.S. Department of Health, Education, and Welfare; Office of Education, State Educational Records and Reports Series, Handbook VI, Bulletin OE 23053.

[3] Roberts, Charles T., *Staff Accounting Classifications and Standard Terminology for Local and State School Systems*, Washington, D.C.: U.S. Government Printing Office, 1974. U.S. Department of Health, Education and Welfare, National Center for Education Statistics, State Educational Records and Reports Series, Handbook IV, Revised.

Option I (Personnel Purposes)

	Definition page number
1–Official/Administrative	114
2–Professional–Educational	114
3–Professional–Other	114
4–Technical	114
5–Office/Clerical	114
6–Crafts and Trades	114
7–Operative	114
8–Laborer	114
9–Service Work	114

Option II (Certificated/Non-certificated)

1–Certificated
2–Non-certificated

Option III (Bargaining Unit)

1–American Federation of Teachers
2–National Education Association
3–Custodial Organization
4–Food Service Organization
5–Craftsman Organization
6–Transportation Drivers Organization

Special Cost Center

Finally, it is recognized that LEA's classify particular expenditures in many other ways. None of these methods is used with enough regularity to include here, but when used, they are important. Their codes may be added to the expenditure account designator at the discretion of the SEA or LEA. Some of the possible additional dimensions are:

1. **Term**. Some LEA's like to classify expenditures by time of year, time of day, or both. (Included as a separate dimension in *Handbook II, Revised, 1973.*)
2. **Course**. LEA's may desire to expand the subject matter dimension to include a breakdown of expenditures by course or course cluster.
3. **Work Order**. In some LEA accounting systems, charges to individual work orders are accumulated for maintenance and operational control.
4. **Bus Route or Vehicle**. It may be desirable to allocate transportation costs to individual bus routes or student transportation vehicles.
5. **State Accounting Number**. LEA's use an additional code to relate the handbook coding to a pre-established and required State code.
6. **Federal Common Accounting Number (CAN)**. Some LEA's may desire to use the Common Accounting Number to trace selected Federal programs.

Furthermore, in automated systems, additional codes may be needed to use in the computer. These might include:

- a *transaction* code to route the transaction through the system and post the correct files and fields in the data record;
- a *fiscal year* code, to assist with closing out one year while beginning to process activity for the new year;
- a *reporting level* code to assist in organizing report contents and subtotals;
- a *district* or other *organizational unit* code in a multi-district system.

Classifying Balance Sheet Accounts

A summary of the balance sheet accounts and the funds in which they are frequently found is illustrated in table 2. Account numbers are included as an indication of how these accounts may be coded. The descriptions without account numbers are summary accounts that would normally appear on the balance sheet for reporting purposes. X's in brackets ( ) indicate asset accounts normally recorded as credits or liability accounts normally recorded as debits. See examples of financial reports in appendix A.

Table 2.–Balance sheet accounts and funds in which these accounts are frequently found

	Balance sheet accounts	Def. page no.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds	General fixed assets account group	General long-term debt account group
Assets and Other Debits											
	Current assets										
	Cash										
101	Cash in bank		X	X	X	X	X	X	X		
102	Cash on hand		X	X	X	X	X	X	X		
103	Petty cash		X				X	X			
104	Change cash						X				
	Cash with fiscal agents										
105	Cash with fiscal agents					X					
	Investments										
111	Investments		X	X	X	X	X	X	X		
112	Unamortized premiums on investments				X	X	X	X	X		
113	Unamortized discounts on investments				(X)	(X)	(X)	(X)	(X)		
114	Interest receivable on investments		X	X	X	X	X	X	X		
115	Accrued interest on investments purchased		X	X	X	X	X	X	X		
	Taxes receivable										
121	Taxes receivable		X	X		X					
122	Estimated uncollectible taxes		(X)	(X)		(X)					
	Interfund receivables										
131	Interfund loans receivable		X	X	X	X	X	X			
132	Interfund accounts receivable							X			
	Intergovernmental receivables										
141	Intergovernmental accounts receivable		X	X	X	X	X	X			
	Other receivables										
151	Loans receivable		X						X		
152	Estimated uncollectible loans		(X)						(X)		
153	Other accounts receivable		X	X	X	X	X	X	X		

Table 2.–Balance sheet accounts and funds in which these accounts are frequently found–Continued

	Balance sheet accounts	Def. page no.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds	General fixed assets account group	General long-term debt account group
154	Estimated uncollectible accounts receivable		(X)	(X)	(X)	(X)	(X)	(X)	(X)		
	Bond proceeds receivable										
161	Bond proceeds receivable				X						
	Inventories										
171	Inventories for consumption		X	X	X		X	X	X		
172	Inventories for resale						X	X			
	Prepaid expenses										
181	Prepaid expenses		X	X	X		X	X	X		
	Other current assets										
191	Deposits		X		X		X	X	X		
199	Other current assets		X	X	X	X	X	X	X		
Fixed assets											
	Sites										
211	Sites									X	
	Site improvements										
221	Site improvements									X	
222	Accumulated depreciation on site improvements									(X)	
	Buildings										
231	Buildings and building improvements						X	X		X	
232	Accumulated depreciation buildings and building improvements						(X)	(X)		(X)	

Table 2.–Balance sheet accounts and funds in which these accounts are frequently found–Continued

	Balance sheet accounts	Def. page no.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds	General fixed assets account group	General long-term debt account group
	Machinery and equipment										
241	Machinery and equipment						X	X		X	
242	Accumulated depreciation on machinery and equipment						(X)	(X)		(X)	
	Construction in progress										
251	Construction in progress									X	
	Budgeting accounts and other debits										
301	**Estimated revenues (budget account, interim statements only)**		X	X	X	X					
302	**Revenues (interim statements only)**		(X)	(X)	(X)	(X)	(X)	(X)	(X)		
303	**Amount available in debt service funds**										X
304	**Amount to be provided for retirement of general long-term debt**										X
	Current liabilities										
	Interfund payables										
401	Interfund loans payable		X	X	X	X	X	X			
402	Interfund accounts payable		X	X	X		X				
	Intergovernmental payables										
411	Intergovernmental accounts payable		X	X	X	X	X	X			
	Other payable										
421	Accounts payable		X	X	X	X	X	X	X		
422	Judgments payable		X	X	X	X	X	X	X		
423	Warrants payable		X	X	X	X					
	Contracts payable										
431	Contracts payable		X	X	X		X	X	X		
432	Construction contracts payable–retained percentage				X						
433	Construction contracts payable				X						

Table 2.–Balance sheet accounts and funds in which these accounts are frequently found–Continued

	Balance sheet accounts	Def. page no.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds	General fixed assets account group	General long-term debt account group
	Bonds payable										
441	Matured bonds payable					X					
442	Bonds payable					X					
443	Unamortized premiums on bonds sold					X					
	Loans payable										
451	Loans payable		X	X	X		X	X	X		
	Interest payable										
455	Interest payable		X	X	X	X	X	X	X		
	Accrued expenses										
461	Accrued salaries and benefits		X	X	X		X	X	X		
	Payroll deductions and withholdings										
471	Payroll deductions and withholdings		X	X	X		X	X	X		
	Deferred revenues										
481	Deferred revenues		X	X	X	X	X	X	X		
	Other current liabilities										
491	Deposits payable		X	X			X	X	X		
492	Due to fiscal agent					X					
499	Other current liabilities		X	X	X	X	X	X	X		
	Long-term liabilities										
	Bonds payable										
511	Bonds payable										X
	Loans payable										
521	Loans payable										X

Table 2.–Balance sheet accounts and funds in which these accounts are frequently found–Continued

Balance sheet accounts	Def. page no.	General fund	Special revenue funds	Capital projects funds	Debt service funds	Enterprise funds	Internal service funds	Trust and agency funds	General fixed assets account group	General long-term debt account group
Lease obligations										
531 Lease obligations						X	X			X
Unfunded pension liabilities										
541 Unfunded pension liabilities										X
Other long-term liabilities										
590 Other long-term liabilities										X
Budgeting accounts (interim statements only)										
601 Appropriations		X	X	X	X					
602 Expenditures/expenses		(X)	(X)	(X)	(X)	(X)	(X)	(X)		
603 Encumbrances		(X)	(X)	(X)	(X)	(X)	(X)	(X)		
Fund equity										
Investment in general fixed assets										
711 Investment in general fixed assets								X	**	
Contributed capital										
721 Contributed capital						X	X			
Retained earnings										
730 Reserved–retained earnings						X	X			
740 Unreserved–retained earnings						X	X			
Fund balance										
751 Reserve for inventories		X	X	X				X		
752 Reserve for prepaid expenses		X	X	X				X		
753 Reserve for encumbrances		X	X	X	X	X	X	X		
760 Reserved–fund balance		X	X	X	X			X		
770 Unreserved–fund balance		X	X	X	X			X		

Chapter 4

Implementing the Account Classification System

This chapter is intended to guide SEA's in uniformly using the account classification system presented here in their LEA's. The following discussion assumes that the State is converting to this system from a condition in which there is no uniform accounting system installed in its LEA's. States which have achieved a degree of uniformity can select those portions of the implementation plan outlined below which are pertinent for converting to the accounts presented here.

This chapter is divided into three sections. One deals with the tasks involved at the State level in achieving Statewide implementation. A second describes the major changes in this publication from *Handbook II* and the impact these changes might have on an installed system using codes from *Handbook II*. The third section outlines the tasks necessary for conversion at the LEA level.

Implementing at the State Level

To install a Statewide accounting system compatible with the guidelines presented here, the SEA can and probably should provide the LEA a considerable degree of support. If comparability is to be achieved, the State must perform certain critical tasks. Other tasks are desirable or helpful. The critical tasks are:

- developing Statewide standards (a manual or other form of written support);
- modifying all State-initiated reporting requirements of LEA's to conform with those standards;
- training LEA personnel in the standards;
- auditing reported results for compliance.

Additional support tasks which are desirable, but not considered mandatory by all States, include:

- forming a Statewide advisory committee to guide the implementation project;
- publicity and awareness training;
- selecting pilot LEA's;
- training and supporting pilot LEA's;
- consulting individual LEA's, on-site or by telephone, including advising them on improving local accounting procedures;
- consolidating LEA reports written in both old and new formats during the conversion process;
- automating the LEA accounting system at the State level;
- annually updating standards and State reports to stay abreast of changes in legislation at both State and Federal levels, as well as improvements in generally accepted accounting standards.

Initial Steps

These steps, critical and desirable, are presented below in a logical sequence. Typically, the first few steps in this process will occur concurrently. These are:

- developing objectives for the Statewide conversion project;
- forming an advisory committee;
- developing an implementation plan;
- budgeting.

Developing Objectives

SEA's should develop objectives in order to implement these guidelines in an orderly fashion. The purpose of the objectives would be to justify the conversion to the guidelines and to provide overall direction to the conversion project. The objectives could include improving the overall management of LEA's in the State, supporting changes in State legislation, reacting to community pressures and reacting to Federal or State reporting requirements.

In defining their objectives, SEA's must decide:

- if this change is part of a more comprehensive change;
- to what degree LEA management styles should change;
- how much influence the State will exert—
  - mandated or voluntary conversion?
  - immediate or gradual conversion?
- what support the State will provide—
  - training?
  - implementation assistance?
  - consulting help?
  - record-keeping systems?
  - automation?

During this process, the SEA should also establish criteria for the new Statewide system. Some suggested criteria are:

- must serve all types of school systems–
  - small, medium, and large;
  - basic and sophisticated;
- must conform to generally accepted accounting principles;
- must meet management needs of LEA's;
- must be able to pyramid data for State and Federal reporting–hence, *Financial Reporting* compatibility;
- must be capable of providing technical support to various management systems at both local and State levels.

Forming an Advisory Committee

An advisory committee is an excellent tool for the SEA to use in setting objectives and criteria and in implementing the guidelines. Many SEA's use accounting advisory committees; these committees could serve the implementation project. Toward this end the committee might:

- serve as a sounding board for suggested changes;
- provide information about the current status of accounting in LEA's;
- recommend how to approach policy, timing and coordination issues;
- assist with publicizing and promoting the change.

Members of the advisory committee might include representatives of the State association of school business officials, the State school administrators association, the State school board association, and the SEA itself, as well as local certified public accountants and school business officials. Other State departments such as the auditor and the central data processing unit frequently are involved also.

Developing an Implementation Plan

As soon as possible, the SEA should prepare an implementation plan depicting the major activities to be conducted and the time frame projected for converting Statewide. Individual responsibilities also can be shown. An example of such a plan is shown by figure 3.

Budgeting

After developing the Statewide plan, the SEA must prepare a budget to support the plan. Obviously, the size of the budget will vary depending upon the number of LEA's to be implemented and the time frame planned. In preparing the budget, the SEA should consider:

- staffing at the State level for:
  - training;
  - implementation support;
- automated support for:
  - LEA's;
  - State-level activities;
- printing;
- publicity;
- outside consulting assistance;
- stipends for pilot districts;
- travel and per diem for State staff and consultants.

Developing the Standards

Two general standards are necessary at the State level. One is a manual outlining a compatible account classification structure for the State's LEA's. The second is a set of models of the reporting formats to be used with the new structure.

Developing the State Manual

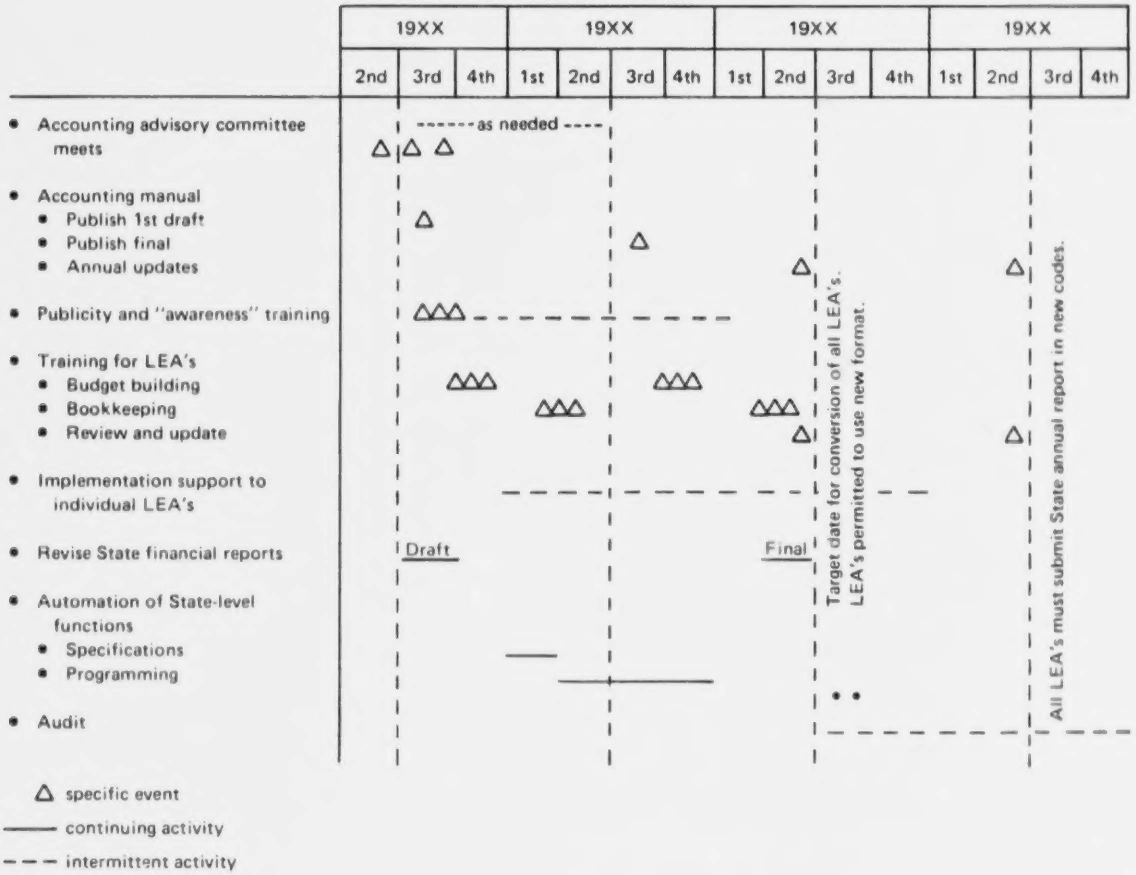
Since this publication was developed as a guide for all LEA's nationwide, most States will find it suitable as a starting point in developing their own standards. After the necessary modifications have been made to accommodate State statutes, State regulations and special State reporting needs, a State can publish a manual based upon this guide.

When writing a State manual, it is first necessary to research legislation, State regulations, organizational considerations, reporting requirements, existing accounting systems and the management needs of LEA's in the State. It is important, during this process, to examine copies of all financial reports required of LEA's by the SEA and the Federal government. Through these documents, a State minimum chart of accounts can be derived, similar to that shown by appendix B.

After the research is completed, the drafting of the manual can begin. A typical table of contents might include:

I. Project Background
II. Listing of Revenue, Expenditure and Balance Sheet Codes
III. Definitions and Explanations of Funds and Accounts
IV. Local Implementation
V. Minimum Account Classifications
VI. Appendices

Figure 3. – Example of Statewide *Financial Accounting* Implementation Plan



Some other items often included in the State manual are accounting procedures, bookkeeping forms, audit procedures, references to or summaries of pertinent regulations and laws, indirect cost allocation plans, special reporting requirements, fixed assets accounting and a glossary.

Most States will develop numerous drafts before completing the final one. The SEA should annually update the manual and distribute the update to the LEA's.

As the drafting of the State manual proceeds, it may become apparent that changes in State law are needed. Some State laws that most frequently either contradict GAAP or impede the development of an effective LEA accounting and financial reporting system are:

- laws mandating cash basis accounting;
- laws mandating a proliferation of funds for special purposes;
- laws governing the definition of current expenditures, capital outlay, or both;
- laws describing the administrative responsibilities of State agencies for designing LEA accounting and financial reporting requirements.

The Statewide implementation of a change in school accounting standards provides an excellent opportunity to seek changes in such laws.

Adapting State Reporting Requirements

As soon as the State handbook is developed, the SEA should redesign the State's reports based upon that handbook. Its requirements probably will not be implemented for another year or two, but the formats are needed for training LEA's.

The primary report to be changed is the State annual financial report. This report usually includes the data needed to complete the annual Federal surveys of general education statistics. In most cases, the State annual financial report will be organized by the expenditure dimensions fund, program, function, object and project/reporting code. Figure 4 shows a typical State financial report format using these dimensions.

In addition to the annual financial report, the SEA will need to modify most other financial reports it requires of the LEA's. This is a good opportunity for the SEA to evaluate its reporting requirements to ensure that all those requirements are necessary. Care should be taken to coordinate any such changes through the State's data acquisition plan, if one exists. Careful planning of the timing of conversion is required to minimize the possibility of the State receiving

Figure 4. – Example of State Annual Financial Report

State Annual Financial
Report
Fiscal Year 19___ - 19___

Fund ____________________

School district ______________

Project ____________________

Program function	Object Codes					Total current expend.			Totals
	Salaries 100	Benefits 200	Purch. svcs. 300-500	Supplies 600	Other 800		Property 700	Other uses 900	
100 Regular Education									
1000 Instruction									
2000 Direct support									
200 Special education									
1000 Instruction									
2100/2200 Staff and student support									
2700 Student transportation									
2X00 Other direct support									
300 Vocational education									
1000 Instruction									
2000 Direct support									
400 Other instruction PK-12									
000 Undistributed expenditures									
2100 Student support									
2200 Staff support									
2300 General administration									
2400 School administration									
2500 Business administration									
2600 Operation and maintenance									
2700 Student transportation									
2800 Central support									
2900 Other support									
Total current expenditures						☐			
500 Nonpublic programs									
600 Adult/continuing programs									
700 Community junior college programs									
800 Community services									
900 Enterprise programs									
000 Undistributed expenditures									
4000 Facilities acquisition and construction									
5000 Other outlays									
Total expenditures and other outlays									☐

reports from LEA's in two formats and having to consolidate them into one.

It may be desirable to involve computer services and business forms vendors in this process at this time. They can greatly assist in training and helping the LEA's convert.

Publicity

An important ingredient in achieving a successful Statewide conversion is a comprehensive program designed to inform LEA's and others about the upcoming change. Such a program can take many forms, but certainly includes a speaking program. The content of these speaking engagements might include:

- the rationale for the change;
- the current status of the project;
- a review of the implementation plan and timetable;
- the State support plan for LEA's;
- a review of the major changes being promoted.

Some suggested audiences for such speaking engagements include:

- State association of school business officials
- State association of school administrators
- State school board association
- State teachers organization
- School bookkeepers and secretaries organization
- local licensed or certified public accountants
- State department personnel
- administrators of intermediate units
- forms and services suppliers
- data processing equipment and service vendors.

This program should be kept active throughout the period of conversion.

In addition to speaking engagements, other publicity would include articles in trade publications and newspapers and periodic mailings to LEA's regarding the status of the project. Keeping all interested parties informed will encourage greater acceptance of the change.

Use of Pilot Districts

Many States like to experiment with a new system such as this by implementing it in voluntary districts—frequently referred to as "pilot" LEA's. The primary advantage in using pilot LEA's is that the State can discover and eliminate implementation problems before applying its new standards Statewide. If pilot LEA's are chosen, they should mirror the LEA's in the State. They should represent all sizes of LEA's, all types of LEA's (Elementary, High School, etc.) and all types of recordkeeping systems (manual, accounting machine and computer).

Training

For the State to achieve Statewide implementation, the LEA's must be trained in the new standards. This can be done in three areas: orientation, preparing and implementing the budget, and bookkeeping. Generally, these types of programs should be offered continually until each LEA has become amply exposed to the new standards.

Orientation

Normal orientation training can be conducted in half a day, with a typical agenda including:

- the project background;
- introduction of the State manual;
- introduction of expenditure, revenue and balance sheet codes.

This type of training is designed primarily for LEA representatives, including superintendents, business officials, and bookkeepers. SEA representatives are also urged to attend. Upon completing this training, participants should appreciate the reasons for implementing the new State manual; understand the contents of the manual, and, more specifically, the account classifications; and be able to judge how they would like to accomplish training in their own districts.

Training to Prepare the Budget and Implement the System

Training to prepare the budget and implement the system typically takes two days with an agenda including:

- a review of the State implementation plan;
- an introduction to expenditure classifications;
- a review of State and Federal reporting requirements (including revised reporting formats);
- local option expenditure coding;
- budget crosswalk;
- actual work in recasting the LEA's budgets;
- an introduction to revenue classifications; and
- a discussion of implementation tasks necessary in the LEA.

As much experiential work as possible is recommended. Implementation training is designed for LEA representatives who will actually finish installing the system. Normally, they would include LEA business officials, bookkeepers and other office personnel. After attending this workshop, most of the participants should be able to install the new State standards in their respective LEA's. Those LEA representatives that feel uncomfortable with the implementation process should be allowed some additional support. This will be explained later in this chapter. In some States' training plans, the orientation and implementation training is combined.

Bookkeeping Training

The final phase of training covers bookkeeping using the new classifications. This training can be designed around a case study in order to give participants "hands-on" exposure to the new system. A typical agenda for such a program would be:

- review coding;
- introduce case study;
- code and crosswalk budget;
- post budget ledgers;
- record and post opening entries;
- record and post accrual reversals;
- open cash journal and post one month's transactions
- record and post ending accruals;
- prepare financial statements.

Bookkeeping training is designed primarily for the LEA bookkeeper and other office personnel. This training will provide participants with either an introduction to the bookkeeping process or a review of this process, whichever applies.

It may be useful to invite others to these training sessions as well. These people might include local public accountants and CPA's. They could also include vendors that provide services to the LEA, such as computer service bureaus, computer and accounting machine vendors, peg-board system vendors and printers of pre-printed forms used by LEA's. The level of training for these people can be limited to illustrating the accounts and dimensions and how they might be used.

Implementation Support

After the training is completed, the SEA may wish to provide implementation support to LEA's as needed. Some SEA's provide such support on-site at the LEA, while others offer telephone consultation. Implementation support can include:

- designing a local plan and schedule of activities for implementation;
- assisting with the development of the LEA chart of accounts;
- assisting with crosswalking the budget;
- advising on restructuring local bookkeeping procedures;
- assisting with double entry and accruals;
- assisting with designing needed modifications to automated systems;
- reviewing actual transactions for proper treatment after conversion; and
- answering classification questions.

Automation

While designing the implementation plan and training, the SEA needs to consider two levels of automation: LEA financial recordkeeping activities and related State-level activities.

LEA Financial Activities

Some SEA's choose to provide automated bookkeeping services to LEA's using State-owned computers, either centrally located or in regional areas of the State. Where this has been done successfully, each project has its own unique characteristics. Hence, it is not practical to attempt to provide general guidelines here. Experience has shown that such projects tend to be both very lengthy (due to the implementation time span) and costly (in State resources), but some have been very effective. For a State which has chosen to follow this path, most of the training and implementation support activities outlined above would have to be expanded substantially.

State-Level Activities

A number of activities usually performed by the SEA using LEA financial data can be and often are automated:

- consolidating and summarizing annual financial reports;
- crosswalking annual financial reports;
- computing State aid, interdistrict tuition rates and average-cost-per-pupil figures;
- developing indirect cost rates in accordance with FMC 74-4.[1]
- preparing State summary statistical data and analysis; and
- preparing data for the generalized Federal financial reports.

Since changes will be required in the processing of financial data, the SEA should consider upgrading its computer processing at the same time.

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[1] General Services Administration, Federal Management Circular, FMC 74-4, *Cost Principles Applicable to Grants and Contracts with State and Local Governments.*

Annual Update and Audit

Once LEA's are converted and operating on the new codes, the SEA must begin maintenance activity to support the new system. This includes a regular audit of the reports submitted to the State and (on a sampling basis) the actual recordkeeping systems of the LEA.

Additionally, the SEA should maintain a regular update procedure for the standards. State and Federal legislation annually dictate changes in the reporting requirements imposed on LEA's. Generally accepted accounting principles may also be undergoing a period of updating and adjustment at this time. The SEA should publish updated standards periodically (probably annually) to help LEA's stay abreast of these standards. It also is helpful if LEA's can be exposed to training on these changes when they occur.

Converting to *Financial Accounting*

Financial Accounting differs from *Handbook II* in that it:

- more carefully delineates revenues and expenditures from other sources and uses of funds;
- places greater emphasis on double-entry bookkeeping and accrual-basis accounting;
- reorganizes the expenditure dimensions into those essential for reporting and those optionally available for LEA use;
- places greater emphasis on preparing comprehensive financial statements based on GAAP;
- incorporates a list of commonly-used programs into the program dimension and places greater emphasis on the use of that dimension;
- reorganizes the function and object dimensions–without significantly reclassifying accounts; and
- improves the design of the project/reporting dimension (formerly source of funds) and its application to revenues as well as expenditures.

A State which has adopted *Handbook II* will find that these added changes can be handled fairly easily as part of a regular annual update of the State manual.

For those States which have just finished such implementation, it may be desirable to incorporate the program dimension from this guide as an option in the State manual for 1 or 2 years before requiring it be used.

Implementing at the Local Level

As part of the planning process for LEA implementation, these activities must be considered:

- management techniques;
- orientation of personnel;
- reporting requirements;
- chart of accounts and budget development;
- forms, procedures and record systems;
- master files and records conversion;
- automation;
- training.

Management Techniques

As part of the process of implementing the State manual, the LEA should review its management style to determine whether any changes are necessary. Since this guide provides a vehicle to gather and report detailed financial information, the LEA may wish to centralize or decentralize the management process or develop a results-oriented management style. A change in the LEA's administrative structure or management technique may result in a change in cost centers, which in turn will affect the chart of accounts design.

Conversion to *Financial Accounting* does not require the LEA to change its management style; rather, it affords the LEA an opportunity to review its management style in light of the change in accounting classifications.

Many LEA's use this conversion as an opportunity to make other changes which have been needed, such as improving the bookkeeping system, automating certain operations, decentralizing budget authority, and the like.

Orientation of Personnel

After determining its management style, the LEA should conduct an orientation for its personnel. It should begin with a justification for change, which might include:

- a need for better financial information for management;
- a desire for improvement of financial controls;
- pressures from the local community;
- a mandate by the State.

LEA personnel should feel more comfortable with the change after it has been explained in detail.

The extent of change must be illustrated. The extent of change relates directly to the management style utilized. Some activities to be illustrated would include:

- budget preparation and reporting;
- accounting records;

- business office procedures;
- organization realignments.

The extent of change will vary substantially from LEA to LEA, based upon the project objectives.

Assignment of specific conversion responsibilities should occur at this session. These responsibilities might include budgeting, expenditure coding, file and records conversion and procedural developments.

The final subject of the orientation session might be implementation monitoring. Someone from the LEA must assume the overall responsibility for implementing the State manual. This responsibility is normally assumed by the superintendent or business administrator. A project schedule should be developed indicating activities and completion dates. Finally, an implementation checklist can be developed which would include the tasks, estimated man-days and the person responsible.

Reporting Requirements

One of the first activities in converting to a new system is to determine any local reporting requirements beyond those established by the SEA. This process may be as simple as conducting a review of the existing budget report, or it may involve a consolidation of various separate accounting activities (e.g., Federal programs, food service, special education) or it may entail changes in managerial style.

All proposed reporting formats should be reviewed by LEA administrators and budget managers to insure that the chart of accounts will provide the financial information needed to make management decisions.

Developing the Chart of Accounts

After the reporting requirements are determined, the next step in conversion is to develop a local chart of accounts. In this guide and in most State manuals, the account classifications presented do not constitute a chart of accounts. Rather, it is necessary to combine the various dimensions and categories into number groups to create a specific chart of accounts for an LEA.

Constructing a chart of accounts compatible with these guidelines at the LEA consists of a number of steps:

1. Determining needed accounts and dimensions;
2. Deciding on the expenditure coding structure for local use;
3. Assigning codes;
4. Adapting recordkeeping systems; and
5. Preparing the budget.

The amount of effort involved at each of these stages will vary a great deal in different LEA's, depending on such factors as: the current condition of accounting in the LEA; whether the system is automated; and whether the LEA chooses to use the conversion as an opportunity to affect other changes (e.g., decentralizing budget responsibility, improving accounting recordkeeping, consolidating records).

Determining Needed Accounts and Dimensions

An LEA must determine the accounts and dimensions needed for the balance sheet, revenues and expenditures. As described in chapter 3, governmental accounting requires fund accounting. The fund dimension is used for all types of LEA financial transactions. Most States have legislative requirements regarding the types and number of funds. Normally, the applicable funds will be designated in the State manual.

In chapter 3, the balance sheet accounts and revenue accounts are listed in their entirety. Most State manuals will follow this format. The LEA should choose only those accounts that are applicable locally.

Choosing which expenditure dimensions to use is the most difficult decision. A well-constructed State manual will provide the LEA with the dimensions required to be used for State reporting and will also list optional dimensions to be used for management purposes.

Developing the Expenditure Coding Structure

Once the needed dimensions have been determined at either the State or local level, the expenditure coding structure can be established. Several of the dimensions fit neatly together to reduce code size and make its organization more efficient. Here are some suggestions:

1. Depending on the amount of detail required, a subject matter breakdown can easily be established within the program dimension. Operational unit, course and instructional organization also could be included within the program code, perhaps requiring more digits;
2. The highest order digit of job classification fits neatly into the third position of the 100 and 200 series of the object code. This would facilitate a tabulation of salaries and benefits by bargaining unit;
3. The project/reporting classification can be incorporated into a fund code or consolidated with the program dimension;
4. Instructional organization and operational unit can be integrated into a single cost-center code.

Figure 5 contains an example showing the construction of an LEA chart of accounts structure from the dimensions listed here.

Often, combinations of dimensions will provide the proper classification of expenditures without adding categories within a given dimension. For example, teaching supplies are identified by using the function Instruction (1000) and the object code for General Supplies (610).

A specific order of the dimensions in the State handbook is not required. Obviously, the dimension structure relates directly to the dimensions utilized. Some of the more common structures used in LEA's are:

Fund	Program	Function	Object	Project/ reporting
X	XXX	XXXX	XXX	XX

Fund	Operational unit	Program	Function	Object
XXX	XXX	XXX	XXXX	XXX

Fund	Project/ reporting	Function	Object	Program
X	XX	XXX	XXX	XX

Assigning Codes

Once the structure is established, individual codes are assigned. Probably the easiest way to start this process is to crosswalk (recode) the existing budget. As this is being done, decisions are needed on how much detail is required for:

- the public;
- the board of education;
- the superintendent;
- cost center management;
- the auditor;
- the business office.

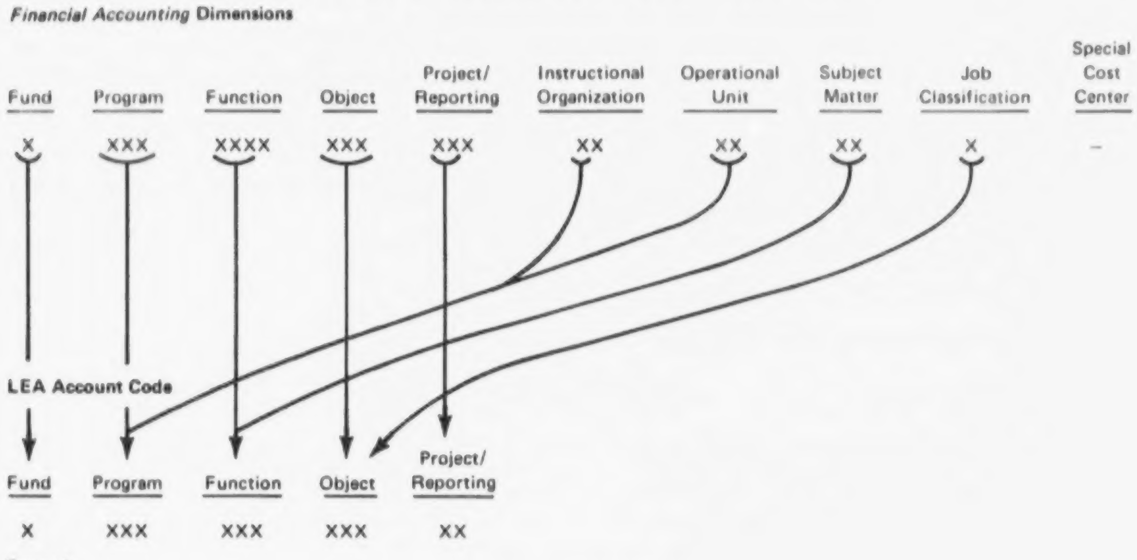
In general, the amount of detail shown should decrease as one progresses up this list, so that the business office has the most detail available while the public and the board of education have carefully summarized figures to work with.

If the LEA is converting from codes based upon *Handbook II*, most codes will convert directly (one-to-one) to the new codes. The codes in the program dimension may have to be added.

Adapting Recordkeeping Systems

During the process of converting account codes, it is likely that some changes will be necessary in the

Figure 5. – Constructing the LEA chart of accounts


Financial Accounting Dimensions
Fund
Program
Function
Object
Project/ Reporting
Instructional Organization
Operational Unit
Subject Matter
Job Classification
Special Cost Center
X
XXX
XXXX
XXX
XXX
XX
XX
XX
X
–
LEA Account Code
Fund
Program
Function
Object
Project/ Reporting
X
XXX
XXX
XXX
XX

Example

2					– Special Revenue Fund
	133				– Regular Program – Jones H.S.
		113			– Instruction – Music
			112		– Teacher's Salary
				41	– ESEA Title I

recordkeeping systems. These changes must be considered when establishing the new codes. Among those conditions commonly encountered that are subject to change, the LEA might find that:

1. *The LEA maintains funds in a variety of different bank accounts.* This condition generally arose from Federal and State guidelines stipulating that LEA's not commingle funds. Although these requirements still exist, most Federal offices and States have held that the requirement is met through proper application of the project/reporting dimension and does *not* require separate bank accounts.

   There are several advantages to consolidating bank accounts. The practice of writing checks between accounts can be eliminated. Cash management by the LEA can be improved. The need to reconcile multiple accounts periodically is eliminated;
2. *Separate accounting systems exist in a variety of offices within the LEA.* The breadth and flexibility of the *Financial Accounting* account codes permits consolidation of the various accounts of the LEA into a consolidated set of books for the LEA.

   There will also be changes in the bookeeping system when double-entry bookkeeping is adopted;
3. *Automated districts will have to consider certain adaptations.* The two most significant changes entailed are likely to be:
   - modification of the payroll for the distribution of salaries and benefits by program and function code; and
   - adoption of double-entry bookkeeping.

Other changes may or may not be significant, depending upon the design of the existing system.

Preparing the Budget

As conversion generally takes place at the beginning of a new fiscal year, a decision must be made whether to construct the new budget on the old codes, the new codes, or both. Generally speaking, it will be desirable to prepare the first budget on the old codes, then crosswalk it to the new budget, splitting or combining the budget line items as necessary. This will help ensure that nothing is left out of the budget during conversion and will enable administrators to present either or both formats to the school boards and other interested parties.

Many SEA's will prepare a standard LEA budget form and a budget calendar to assist the LEA's.

Forms, Procedures and Record Systems

In some LEA's, it may be necessary to redesign forms and records to:

- accommodate a larger account number;
- provide the necessary support to changes in management style or accounting procedures;
- accommodate double-entry bookkeeping.

For example, forms such as purchase requisitions, purchase orders, checks, receipts, timesheets and warehouse requisitions that currently include the account code structure must be changed. In a manual recordkeeping system, the format of the general ledger cards, subsidiary ledger cards, and journal sheets may require changes. In an automated or semi-automated district, this step may include appropriate modifications to input document record layouts, printed forms and reports, input edit routines, and the computer programs themselves.

If this step must be taken, adequate time should be allowed for forms to be redesigned and a sufficient supply printed, and for the necessary reprogramming to be accomplished.

Converting Master Files and Records

Certain of the LEA's accounting master records may be carried over from one fiscal year to the next. It will be necessary to recode these records with the new account codes. Specifically, these include:

- outstanding purchase orders;
- accounting ledger cards; and
- payroll accounting distribution records.

Automation

The most common technical problems in converting the automated system include:

- distribution of salaries to multiple accounts;
- distribution of district-paid fringe benefits;
- double-entry accounting—preparing balance sheets; and
- size of the account code field.

Training

Training can be provided for two groups of personnel: employees of the LEA and personnel directly associated with the LEA.

LEA Employees

The first group of LEA employees to be trained should be the administrators. To provide the proper leadership, administrators must have knowledge of the new system and the effort required for conversion.

If the budget development and management is decentralized, the budget managers must also be trained. This training would stress:

- why the change was made;
- the accounts and dimensions used;
- the definitions of the accounts and dimensions;
- the format of the budget documents;
- the budget procedures; and
- the format of new financial reports and how to use them.

Another group of LEA employees to be trained would be the personnel who will actually code the transactions and keep the records. This group must have a good working knowledge of the chart of accounts.

Non-LEA Employed Personnel

The Board of Education is the first outside group that needs training. The Board of Education should be informed of and approve the project before the LEA commits to conversion. Their training should emphasize:

- why the conversion will be made;
- the benefits of the conversion;
- the accounts and dimensions used;
- the definitions of the accounts and dimensions; and
- the format and use of the new financial reports.

LEA auditors should be informed of the change, particularly as it affects the accounts and dimensions used. Also, the format of the financial reports included in the audit must be developed.

A discussion might also be held with labor bargaining units in order to inform them of the new chart of accounts and financial reports.

Finally, the LEA's general public must be educated. The LEA might, for example, submit an article in a local newspaper explaining why the conversion is being made and the benefits of the change. Also, as public budget meetings are held, the changes and benefits from the change should be explained. Finally, the annual financial report in the new format should be available for public inspection.

Chapter 5

Cost Accounting for Educational Programs

In recent years, education officials, from the local level to the Federal level, have increased their interest in developing more accurate cost data for education programs. The motivations behind this interest are varied. Federal categorical funding programs depend on cost information to budget and award grants. Many SEA's must determine the costs of various administrative and instructional activities for the purposes of indirect cost recovery from the Federal government and for allocation of State aid to LEA's. There is increasing pressure at the local level to improve the quality of education. An LEA's ability to control the quality of education depends highly on its ability to measure the costs of education programs in relation to their effectiveness.

The National Center for Education Statistics (NCES), by virtue of its responsibilities to report on the condition of education in the United States and to assist States and LEA's with the improvement of their data gathering and reporting systems, has developed a strong interest in the issues surrounding the costing of education programs. In this publication, NCES's primary concern in this area is to help develop more accurate and comparable cost data by program, and particularly the separation of K-12 costs from costs of other educational activities.

With the program listed as an essential dimension, this guide places greater emphasis on classifying expenditures in the program dimension than does *Handbook II.* This change is a reflection of the increasing emphasis on the reporting of results in education in terms of programs.

This chapter discusses the still relatively new techniques of program cost accounting and indirect costing; gives a brief theoretical background to the use of these techniques; and demonstrates a model application of indirect costing in an LEA. Other methods of accumulating financial data to provide managerial information also are discussed.

Framework for the Discussion

Developing effective techniques for applying costs to programs is still an immature art. Much additional work must be done to develop techniques which will have universal applicability and general acceptance. However, as the demands for program information increase, more and more education agencies are grappling with the problem with varying degrees of success. As this process continues, there will evolve a substantial body of knowledge from which more effective techniques will be distilled.

The discussion which follows is an attempt to summarize the current state of the art of program cost accounting, and, perhaps, to provide impetus to the developmental process. Two caveats concerning this discussion need to be stated at the outset: (1) cost accounting systems tend to be unique to the needs of the individual user (currently there is no generally-applicable system); and (2) the Federal system for determining allowable indirect costs on Federal projects described in A-87[1] is not the cost accounting system being discussed here. **

Cost Accounting Systems Are Unique to the User

It has been fairly well documented that there is no one cost accounting system or specific indirect cost model which would serve all LEA's and higher levels of government equally well. Research clearly shows that the form and substance of a cost accounting system is shaped by its purpose, the costing standards which the user wishes to apply, and the type of financial accounting system used. Its design also is affected by the size of the organization, whether computer support is available, and the level of expertise within the staff. Hence, in this chapter, no standard indirect costing system is proposed. Rather, the theory of indirect cost system design is discussed and some examples shown. LEA's interested in applying indirect costs locally should be prepared to develop a system unique to their own situations.

The type of cost accounting and indirect costing approaches used may vary, depending on the level of responsibility of the user. When a State or a Federal agency requires information from a program costing effort, the cost accounting system should be tailored to the needs of the requesting agency; any way that the resulting costs apply to the information needs of an LEA would likely be coincidental. This is largely true of LEA participation in the few Statewide program costing systems which now exist. It is certainly true of LEA participation in the calculation of Federal indirect cost rates for contract and grant overhead reimbursement. Consequently, this chapter applies primarily to program cost information needed by LEA's for internal purposes. Some of these uses are described below under Program Cost Accounting.

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[1] Office of Management and Budget, Circular No. A-87, *Cost Principles for State and Local Governments.* Federal Management circular 74-4 was reissued January 15, 1981, without substantive change, as OMB Circular No. A-87.

For the same reasons it seems likely that any State, unless it finds that it must mandate a Statewide cost accounting system for tuition rate computation, State aid, or similar purposes, should not contemplate implementing such a system. This is particularly true if the purpose of the system would be to provide cost information solely for the benefit of its LEA's. For just as LEA's have individual needs for cost information, so do SEA's, and a uniform Statewide system is unlikely to meet both needs efficiently and effectively. Any State wishing to assist its LEA's in cost accounting may wish to publish a general "how-to-do-it" manual, containing concepts and suggested alternatives for the various elements in a cost system. It can then provide training assistance for its LEA personnel.

Federal Indirect Cost Reimbursement

FMC 74-4[2] authorizes indirect costs on Federally-funded projects to be reimbursed and establishes the methods of calculating the amount. The stated objective of the Federal indirect cost reimbursement procedure is "to provide that Federally-assisted programs bear their fair share of costs recognized . . . except where restricted or prohibited by law."[3] The cost objectives (i.e., programs) stipulated in these regulations are Federally-funded projects operated by an LEA. The indirect cost allocation process usually used for this purpose provides for the calculation of an indirect cost rate or rates for the LEA as a whole. These rates are then applied to selected portions of the LEA's direct expenditures to arrive at overhead or indirect cost amounts for particular projects. Certain costs which might normally be considered indirect costs to a program are not allowed in the A-87 formula because of legal restrictions.

While this system works well for Federal cost reimbursement purposes, its specialized design makes it inappropriate for developing indirect cost data used by LEA management for decisionmaking and other purposes. Hence, these procedures are not considered further in the discussion that follows.

Program Cost Accounting

An LEA might make several uses of a program cost accounting system. These can be categorized into uses which support internal management decisionmaking, those which aid in justifying funding requests, and those needed in reporting for accountability.

Uses for Internal Management

- *Deciding on Resource Allocation.* Cost data or cost/benefit data can help determine how much money should be allocated to new programs or services, and whether incremental portions of supporting service costs can be saved when existing programs or services are cut back or eliminated;
- *Monitoring Costs.* Cost data can assist in evaluating whether or not a program or service is cost effective compared to the value expected, or whether a cost reduction program is actually working;
- *Setting Tuition Rates or Other Fees.* Cost data can be used to set tuition rate schedules for students who live outside the district. They also are used to set other student-related fees and fees for community use of buildings;
- *Charging For Internal Services.* Many LEA's wish to develop fee schedules for intra-school or interdepartmental services, such as data processing, printing, or distributing materials and supplies. In this way, receiving programs can be charged their equitable share of such costs.

Uses for Funding

- *Justifying Funding Requests.* Program costs can assist in justifying past expenditures, applying for funds for new programs or seeking increased funding for current programs.
- *Deciding Whether To Accept State or Federal Grants.* In recent years, a number of LEA's have begun to question the financial value of accepting certain State and Federal grants. Depending on the spending and reimbursement restrictions placed on a grant, some LEA's may find the portion of the program

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[2] Ibid.

[3] Ibid., Attachment A, pg. 1.

which must be funded locally to be too burdensome for the value received. Some LEA's have refused or dropped grants for this reason. Program objectives and cost analyses are a helpful basis for making such important decisions.

Uses for Accountability

- For accountability, each LEA provides certain reports to its board and to the State, Federal agencies, or both. There has been a recent tendency to ask for program cost data in some of these reports.

An LEA may choose to satisfy one or several of these objectives simultaneously, or none at all. At any rate, the LEA must have the purpose(s) for developing cost information clearly in mind before designing and implementing a cost accounting system. Otherwise, the LEA risks wasting its time and money and possibly producing cost data which is not as useful as expected. An LEA may wish to allocate revenues to programs also, to provide an additional basis for evaluating those programs.

Program cost accounting does *not* of itself improve the decisionmaking process. Rather, this technique provides both a discipline and a tool for managers to apply when evaluating programs. For example, it is not particularly useful for an LEA administrator to know that a particular program (e.g., Natural Science) costs his LEA $381 per student. But, it may be helpful for him to compare this cost to the per-student cost for the same program in the preceding few years (e.g., 1978–$360, 1977–$349, 1976–$339); or to know that the $381 is made up of $220 of instructional (i.e., direct) expense and $161 of support (i.e., indirect) costs; or to compare the cost to his LEA for this program with the costs for a similar program in another LEA. In any of these events, the administrator would still need to consider other intangible factors, such as the importance of the program in question to the community and to the overall educational effort of the LEA.

Setting Cost Objectives

The cost objectives in an LEA's cost accounting system may consist of instructional programs, special projects, or any of several other types of program classifications. However, in most cases the final cost objectives will be comprised of instructional programs and other activities, such as community services, and the indirect cost pools will be comprised of the support service programs.

For an LEA with a financial accounting system based on this publication, the final cost objectives in its cost accounting system could be incorporated directly into the program dimension. Following is an example of a possible set of final cost objectives built upon the program structure defined in this guide. [Note that three local programs (K-3, 4-9 and 10-12) have been added to the *Handbook II* program structure and several have been dropped.]

Cost	*Objective*
110	K-3, Regular instruction
120	4-9, Regular instruction
130	10-12, Regular instruction
200	Special education
310	Vocational education–agriculture
320	Vocational education–distributive education
330	Vocational education–health occupations
341	Vocational education–occupational home economics
342	Vocational education–consumer and homemaking
350	Vocational education–industrial arts
360	Vocational education–office occupations
370	Vocational education–technical education
380	Vocational education–trades and industrial occupations
600	Adult/continuing education
800	Community services
910	Food services

The indirect cost pools for a cost accounting system might be taken directly from the support services categories in the function dimension, as follows:

Code	*Function*
2100	Support services–students
2200	Support services–instructional staff
2300	Support services–general administration
2400	Support services–school administration
2500	Support services–business
2600	Support services–operation and maintenance of plant
2700	Support services–student transportation
2800	Support services–central

By setting cost objectives in this manner, the LEA is able to allocate the indirect costs accumulated in the support services functions to programs using different bases for allocation.

The Program Structure

Obviously, different LEA's will choose to use different program structures and different indirect cost pools. Much has been written about the different ways to establish a program structure in an LEA. Some of the more common methods of categorization of LEA programs include nature of instruction (i.e., regular, special, vocational, adult), level of instruction, subject matter, and course or course cluster. Additional programs in community and enterprise activities often are included.

To insure accuracy, it is desirable to design a program structure which is all-inclusive so that indirect costs, when allocated, are fully distributed. Many LEA's allocate indirect costs only to certain programs (e.g., Title I., Child Nutrition)–particularly where the objective is cost reimbursement. However, this entails the risk of inconsistency in cost allocation and involves the possibility of double charging.

In any event, it is important to design a program structure whose individual elements are mutually exclusive.

Relationship to Program Budgeting

Program budgeting systems generally describe a mechanism by which the LEA can establish goals and objectives and can design programs to complete those objectives. These programs will then become the "cost objectives" (described above) in the cost accounting system. For a program (or any other) budgeting system to operate successfully, the LEA must establish some mechanism to create a record of actual expenditures made in relation to each of the line items (programs) in the budget. This is the program cost accounting system. It is related to the program budgeting system in that it receives its objectives from that system, and in turn provides cost data which program managers may use to help evaluate the cost-effectiveness of the programs budgeted.

Cost Accounting System Design

A program cost accounting system can be described in terms of seven basic elements:

1. The purpose(s) of the cost accounting system;
2. Final cost objectives;
3. Indirect cost pools (intermediate cost objectives);
4. Costing standards employed;
5. The crosswalk between the financial accounting system and the cost accounting system;
6. The allocation bases; and
7. The indirect cost allocation formula employed.

Figure 6 illustrates how these elements fit together in the design and operation of a cost accounting system. The first three of these elements were discussed above. The techniques for indirect cost allocation are discussed in the following paragraphs.

Distinguishing Between Direct and Indirect Costs

FMC 74-4 defines direct costs as:

> "... those which can be identified specifically with a particular cost objective."[4]

Indirect costs are defined as:

> "... those (a) incurred for a common or joint purposes benefiting more than one cost objective, and (b) not readily assignable to the cost objectives, specifically benefited, without effort disproportionate to the results achieved."[5]

This definition expresses two basic concepts:

- an indirect cost is one that *benefits more than one activity* (cost objective); and
- an indirect cost is one that *is not readily allocated among the activities benefited.*

Any cost transaction which affects more than one program or cost objective should be allocated among them. The best allocation is one which distributes a portion of the cost to each program or cost objective in proportion to the benefit or services received. Thus, if a teacher teaches one-third of his or her time in vocational education and two-thirds in social studies, one-third of his or her salary would be allocated to vocational education and two-thirds to social studies. This distribution of cost can be readily identified and allocated. Therefore, it would be proper to consider the allocated portions of the salary cost as *direct* to their respective program areas. (In this example, assume that subject matter areas have been designated as programs.) If, on the other hand, the LEA could not easily allocate a counselor's salary to programs, then such payments would be posted to a general salary account in the financial accounting system and would be termed indirect costs to all the instructional programs.

Since LEA's generally consider the instructional programs as the cost objectives of the district, then those LEA's may choose to regard all charges to instructional programs as direct costs, whether they are direct charged at the time of the transaction or allocated later. In the public sector, there is generally a great deal of interest in the components of a program's cost. These should be developed in such a way that both school managers and the general public can compare them between programs and between districts. Hence, within a State, it is probably desirable to arrive at mutual agreement on the distinction between direct and indirect costs.

In summary, the relationship between a cost and the various cost objectives being analyzed will determine

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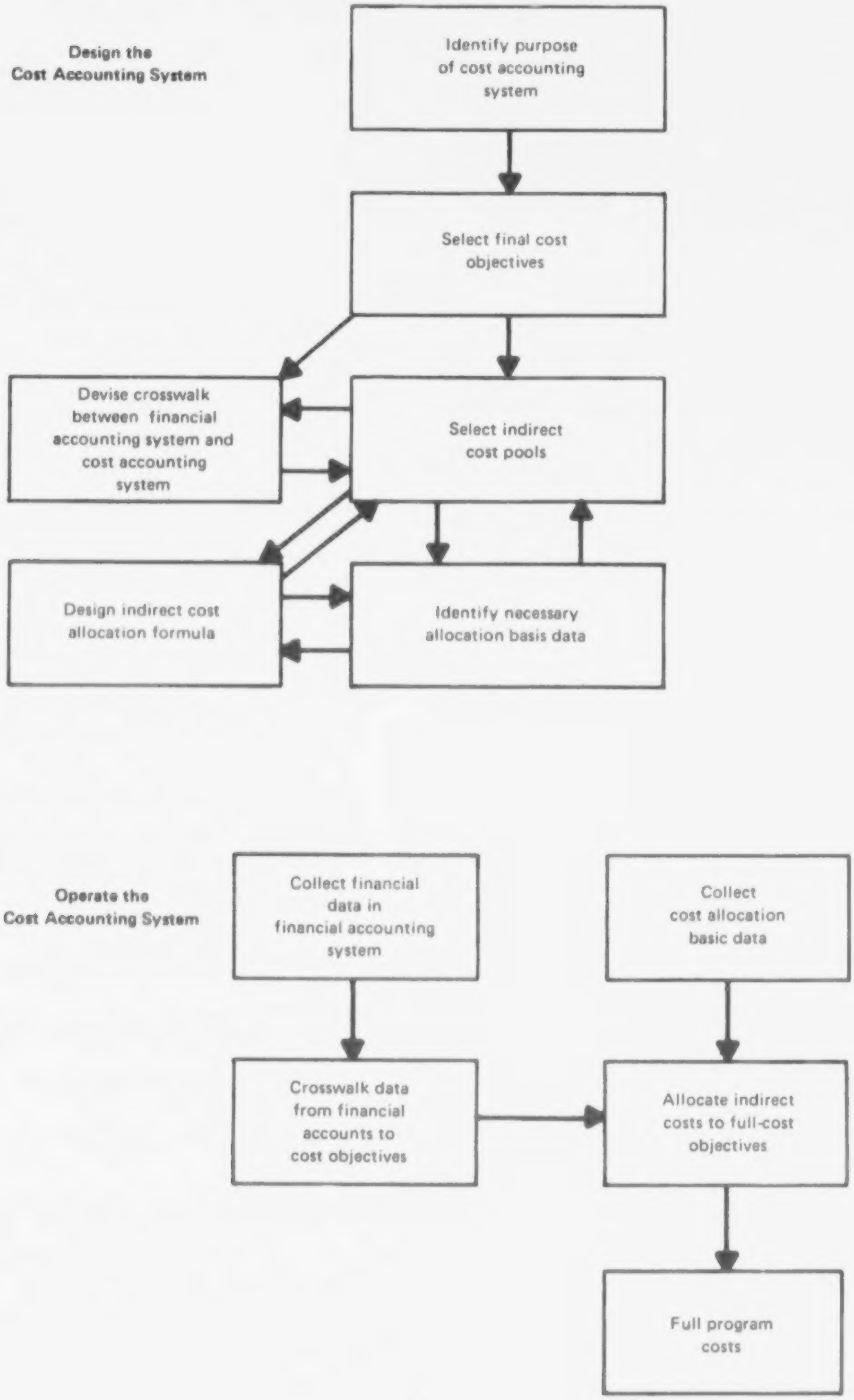
[4] Ibid., p. 4.

[5] Ibid., p. 5.

Figure 6. — The basic elements of a cost accounting system


Design the Cost Accounting System
Identify purpose of cost accounting system
Select final cost objectives
Devise crosswalk between financial accounting system and cost accounting system
Select indirect cost pools
Design indirect cost allocation formula
Identify necessary allocation basis data
Operate the Cost Accounting System
Collect financial data in financial accounting system
Collect cost allocation basic data
Crosswalk data from financial accounts to cost objectives
Allocate indirect costs to full-cost objectives
Full program costs

whether a cost is direct or indirect. Further, deciding whether some costs are direct or indirect is often judgmental, involving consideration of how much precision is required in cost analysis results and how much effort and expense might be needed in achieving this precision. Such factors as whether the financial accounting system is functionally oriented or based on the LEA's organization structure can effect the effort needed to produce the desired program costs.

Costing Standards

Proper costing standards promote cost data that is internally consistent and highly comparable. Data developed under widely varying costing standards may provide misleading comparisons and may contain hidden inaccuracies.

An excellent discussion of costing standards is found in an article jointly published by NACUBO and NCHEMS. While written for institutions of higher education, it is equally applicable to elementary/secondary education. With regard to costing standards, it says:

> "The term 'costing standards' as used here refers to principles that should be applied in determining cost. Costing standards constitute the framework or foundation on which costing is performed. Because costing standards are basic definitions of how costs should be determined they provide a better understanding of the meaning and applications of costing.
>
> "Costing standards facilitate a more consistent determination of cost; however, the application of these standards will not insure uniform determination of cost information, because judgmental and other factors are involved in the costing process. Costing standards provide criteria for the selection of costing alternatives that are valid in terms of their justification of cost accumulation and allocation within a conceptual foundation of cost accounting theory.
>
> "The development of costing standards is an evolving process and additional standards may be added from time to time as more study is given to this complex subject."[6]

Among other standards, this article suggests that:

- cost information be based on the accrual method of accounting;
- cost data be reconcilable to official financial accounting data;
- non-financial data be reconcilable to official institutional records;
- uniform definitions be employed in determining cost;
- cost information and related costing service units cover the same time period;
- cost information be consistently determined from period to period and from organizational unit to organizational unit;
- indirect costs be allocated practically;
- capital cost of a cost objective reflect the applicable expired (i.e., depreciated) cost of the period; and
- cost information be accompanied by a disclosure statement.[7]

Structure of the Financial Accounting System

Cost data are provided to the cost accounting system by the financial accounting system. The account structure of the latter must be examined to see how readily costs can be transferred, or crosswalked, from the financial accounts to the cost objectives in the cost system. In circumstances where the cost system and the financial accounting system have been well-planned and coordinated, the financial accounts may coincide with the final cost objectives. The ideal situation is to have all final cost objectives identically represented in the financial accounting structure, thus making the crosswalking of data from one system to the other a direct one-to-one transfer of data.

However, in many LEA's the final cost objectives will not match the accounts in the financial accounting system identically. For example, an LEA may account for expenditures for "special education-instruction" in its financial accounting system, yet desire a breakdown of special education costs by type of handicap in its cost accounting system. To meet these requirements, the "special education-instruction" account would have to be further analyzed by handicap for cost accounting purposes. This takes time and effort, and introduces a degree of inaccuracy into the resulting cost calculations. Consequently, it is important to carefully identify all financial accounts that will supply data for each final cost objective and to minimize the amount of analysis that must take place during the crosswalk process. This may require modification of either the cost objectives or the financial account structure so that they relate more directly to one another.

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[6] "Fundamental Considerations for Determining Cost Information in Higher Education"; National Association of College and University Business Officers, One Dupont Circle, Washington, D.C. 20036, 1975, pg. 14. (This article has also been published as an appendix in *Procedures for Determining Historical Full Costs*, jointly published by NACUBO and the National Center for Higher Education Management Systems in 1976.)

[7] Ibid.

Allocation Bases

In a cost accounting system, each indirect cost pool accumulates the costs of a certain type of support service. For each support service, a unit of measure can be selected which directly relates the costs of that service to the amount of benefit received by each program. For example, the amount of student personnel services associated with the instructional programs may be considered to vary with the number of students in each program. These units of measure are used to allocate support costs to each program. When used for this purpose, such units of measure are called allocation bases.

The principal considerations in selecting allocation bases are accuracy and cost of collection. These often tend to conflict with each other.

Proper choice of the allocation bases used can greatly affect the resulting accuracy of the indirect cost allocation formula. The more direct the relationship between an allocation basis and the cost of support services received by the benefiting program, the more closely the resulting *calculated* program costs will approximate the "real" program costs. However, it must be recognized that the calculation of true program cost can only be a goal which will probably never be realized. Any cost accounting system does involve a process of estimation, so that the resulting costs applied to a program can only be an approximation of that program's "real" cost.

It may be impossible to identify an allocation basis which relates well to all the costs in an indirect cost pool. In this case, dividing the pool into groups of homogeneous services and selecting the best allocation basis for each will improve the accuracy of cost calculations.

When two or more indirect cost pools can be allocated using the same allocation basis, they may be combined to form a single indirect cost pool. The resulting pool can then be allocated with the same accuracy, saving the effort required to allocate each pool separately.

The cost of collecting data for use in the allocation formula varies according to the basis used. For example, two suitable bases for allocating the cost of student transportation services to instructional programs might be (1) the average daily membership (ADM) in each program, and (2) the number of student-miles per program (the number of miles each student in a program is transported). The costs of collecting the data for these alternative allocation bases would be very different. ADM is normally collected anyway and could probably be easily related to programs, while student-miles per program probably would involve an expensive logging, pro-rating and accumulation system. In this case, the LEA would probably choose to use ADM as it's allocation basis.

The more common allocation bases used in LEA's are: (1) number of students, (2) number of teaching staff, (3) number of units consumed, produced, or processed, (4) elapsed time, (5) space occupied, (6) space occupied over time, (7) mileage, and (8) dollars. The listing below shows the allocation basis or bases most commonly used in LEA's for the indirect cost pools most commonly employed.

Type of service (indirect cost pool)	*Function code*	*Most commonly used allocation bases*
Student support	2100	ADM, ADA, time spent by staff providing service
Instructional staff support	2200	FTE teaching staff, time spent
General administration	2300	Direct program expenditures, time spent, FTE employees
School administration	2400	Direct program expenditures, time spent, FTE employees
Business	2500	Number of transactions, direct program expenditures
Operation and maintenance of plant	2600	Floor space occupied, space occupied over time, labor hours
Student transportation	2700	Miles driven, student miles driven, driver hours
Central support services	2800	Direct program expenditures, time spent, FTE employees
Facilities acquisition and construction	4000	Usually not allocated
Other outlays	5000	Usually not allocated

While the listing shows typical allocation bases in an LEA, many other combinations are possible. Indirect cost pools can be further combined (as in the example at the end of this chapter) or further expanded (see *Handbook II, Revised, 1973,*[8] for examples), and many other allocation bases are both possible and logical for varying circumstances. The listing should in no sense be regarded as definitive in this area. The selection of the indirect cost pools and allocation bases are among the most critical factors in the design of the LEA cost system and must be tailored both to its objectives and to its degree of sophistication.

Indirect Cost Allocation Formula

The indirect cost allocation formula is the heart of the cost system. It consists of rules or constraints which dictate how the indirect costs will be distributed among the cost objectives. There are three common techniques by which indirect costs are allocated: using a one-step process, a multi-step process, or simultaneous equations.

As with the other components of the cost system, the key consideration in the design of the allocation formula is the tradeoff between precision and complexity. Greater precision can increase the potential for a closer approximation of true program costs; but more precise allocation formulas are usually more complex. With computer support, this complexity may not be a disadvantage; but without computer support, the complex calculations in some formulas can result in a great expenditure of resources, and can increase the probability of erring.

The user, as a rule, should not attempt to employ an allocation formula which provides greater precision than the other components of the cost system. For example, it would probably be inappropriate to use simultaneous equations or a multiple-regression formula to allocate indirect costs if those costs were accumulated in only a few indirect cost pools and allocated by such gross measures as total direct dollars expended.

Following is a discussion of the three general types of cost allocation formulas.

One-Step Cost Allocation Formulas

One-step (or "single-fold") cost allocation formulas are designed so that all indirect costs are distributed only to the final cost objectives and not to other indirect cost pools. Each indirect cost pool is fully allocated the first time; there are no additional allocations. The assumption underlying this approach is that the services whose costs are contained in each indirect cost pool are rendered only to the final cost objectives (such as instructional programs) and not to any of the support functions or activities in the other indirect cost pools. This assumption is not always true–support services can often serve other support activities. An example can be constructed using custodial services: part of custodial services go to support the payroll function (e.g., keeping the payroll department clean); the payroll department in turn supports student personnel services by paying salaries to counselors; and counselors offer services to students and thereby can be linked to the cost of instructional programs. Such interrelationships of support services are not reflected in the one-step process.

Two-Step Cost Allocation Formulas

Two-step (or "double-fold") cost allocation formulas recognize that some support programs serve not only instructional programs but other support programs as well. In the first step of this approach, indirect costs are allocated to both instructional programs and to other indirect cost pools according to the proportion of services provided. Therefore, unlike the one-step process, some indirect cost pools still have costs assigned to them at the end of step one. In step two, all remaining indirect costs are allocated to the instructional programs; none are allocated to other indirect cost pools.

Cost Allocation Formulas Using Simultaneous Equations

This is the most accurate of the cost allocation methods. Like the two-step approach, it also recognizes that some support programs serve both instructional programs and other support programs. However, while the two-step approach violates this assumption in its second step, this method does not. By using a set of simultaneous equations, this method, in effect, keeps allocating back and forth among instructional programs and indirect cost pools until the amounts in the indirect cost pools are reduced to zero. As a result, the formula itself contributes no inaccuracy to the final program cost results. Any imprecision in the results must come from such other variables in the cost system as the allocation bases chosen.

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[8] Roberts, Charles T., and Allan R. Lichtenberger, *Financial Accounting: Classifications and Standard Terminology for Local and State School Systems.* Washington, D.C.: U.S. Government Printing Office, 1973. U.S. Department of Health, Education, and Welfare; Office of Education, State Educational Records and Reports Series, Handbook II, Revised, Bulletin 73-11800.

Choosing the Indirect Cost Allocation Formula

The one-step approach is the least accurate in terms of distributing indirect costs to the programs they actually support (without considering the accuracy of the other elements which comprise the cost system). However, the sacrifice in accuracy associated with the one-step method can be offset by its relative simplicity. Also, depending on how the rest of the cost system is designed (cost objectives, allocation bases, etc.), it is usually the least costly to use. For these reasons, a one-step cost allocation formula is the logical choice for most LEA's. In particular, LEA's without computer support that wish to minimize clerical involvement in calculating indirect costs should probably select this approach.

For LEA's with computer support and more sophisticated accounting systems, the selection of a cost allocation formula may depend on the specific costing purpose. For research purposes or large, detailed cost studies, the simultaneous equations approach may be preferred. For smaller projects, the two-step approach, or even a one-step formula may be suitable.

The criteria to consider when designing an indirect cost allocation formula are:

1. Does the situation require detailed, highly accurate program costs?
2. Will the cost allocations be calculated by hand or by computer?
3. Does the required level of accuracy justify the time, effort, and money that may have to be expended?
4. If either the two-step method or the simultaneous equations method is to be employed, has the rest of the cost accounting system been designed to support this level of accuracy?

State-Level Cost Accounting Systems

As of the date of publication of this handbook, few States employed a State-level cost accounting system other than the procedure mandated by OMB Circular A-87. In the few States where such systems are in use, they are characterized by their diversity. Some of these systems have been developed in response to legislation governing the distribution of State aid. Others seem to derive their impetus from the interests and energies of State or local school business officials.

Other than having one or two common purposes–either the allocation of State aid or the calculation of tuition rates–these systems have little else in common. Of particular note is the fact that the indirect cost allocation procedures vary in method and complexity, from a one-step allocation formula to a formula including as many as three allocation steps. The only broad similarity is that all of the cost accounting systems are mandated by either State statute or administrative rule, and the special features of each system are geared directly to the unique information needs of a State.

It seems that in most of these States, LEA's have little practical internal management use for the cost outputs of the State-level cost systems. In one State, the principal benefit to LEA's appears to be the availability of better information on the cost to the LEA of supporting State and Federal grants for local use.

Once again, we conclude that program cost accounting systems are, and should be, tailored to the unique needs of the user.

Applying Indirect Costing—An Example

Let us now use the principles discussed above to establish a model of an indirect cost system which might be used in an LEA. This model is included as an example only and should *not* be construed as a standard for use by all LEA's.

Design Goals

Our hypothetical LEA has two primary purposes in attempting to establish a program cost accounting system. At the last two or three annual meetings, citizens have shown greater and greater interest in the costs of attaining certain educational objectives. They seem particularly concerned about the "extra" programs the district is offering such as athletics, adult education and the school lunch program. One objective, then, is to collect cost data about these programs.

The Superintendent's other objective is to develop good data on per-student costs for various kinds of educational services to be used in negotiating tuition rates with neighboring districts.

These, then, were established as the objectives of the program accounting system. Concurrently, it was decided that:

1. The approach used should produce program costs that have reasonable accuracy and precision;
2. The approach should be reasonably simple to implement; and
3. The approach should take as little time as possible to operate.

Cost Objectives

The hypothetical LEA determined that the purpose of its model program costing system was to delineate the costs of its major programs These, then, would become the final cost objectives in the system. The program structure selected was: regular education, vocational education, special education, other PK-12 education, adult/continuing education, community services and food services.

Costing Standards

The costing standards employed would be based upon those used in the financial accounting system already operational in the hypothetical LEA. That is:

1. Cost reports will be prepared for the full year at the end of the fiscal year;
2. Expenditure data are recorded on the accrual basis at year's end. Since cost reports will be required only at year's end, this procedure will be satisfactory; and
3. Most of the allocation basis data will be extracted from the data used to prepare the annual statistical report for the State. Some analysis will have to be done to develop these data on a program basis. Also, it will be necessary to adjust some of these data to reflect the fiscal year (July to June) rather than the school year (September to August).

Indirect Cost Pools

Seven indirect cost pools will be used: student support, instructional support, school administration, other administration (functions 2300, 2500, 2800, and 2900, respectively), operation and maintenance of plant, student transportation and property.

Crosswalk From Financial Accounting

Except for the application of property-use costs, all financial information will crosswalk from the financial accounting system without analysis.

Indirect costs in this system will be only those costs charged to one of the seven pools *and* to program 000–Undistributed Expenditures. Some costs will be assigned to the support services functions but will be direct-charged to programs at the time of recording the transaction. For example, the guidance counselor at the high school spends half of his time working with special education students and half in regular education. His salary is charged directly to these two programs, even though it is also charged to function 2130–Guidance. As another example, the district has determined that all costs of preparing and serving food in the lunchroom can be direct-charged to the food service program. Only custodial and some administrative costs remain to be allocated in this case.

Allocation Bases

The LEA has determined that it will use the following allocation bases for the various indirect cost pools:

Indirect cost pool	*Function codes*	*Allocation basis*
Student support	2100	Average daily membership (ADM) – students, by program
Instructional support	2200	Full-time-equivalent (FTE) teaching staff assigned each program
School administration	2400	Full-time-equivalent (FTE) teaching staff assigned each program
Other administration	2300, 2500 2800, 2900	Total program direct expenditures
Operation and maintenance of plant	2600	Square feet assigned each program
Student transportation	2700	Miles driven by program
Building use costs		Square feet assigned each program
Equipment costs		Total program direct expenditures

ADM, FTE teaching staff and program expenditure data will be derived from the annual statistical report prepared for the State. Square feet assigned each program will be computed at the beginning of each school year based upon the classroom assignments made at that time. For this purpose, arbitrary allocations will be made for adult/continuing and for community services, since these programs use the same space assigned to the other programs, but at different times of the day. Miles driven will be summarized by program from the student transportation vehicle logs.

Indirect Cost Allocation Formula

One important decision is needed, and that has to do with the way in which building and equipment costs are accounted for in program costing. Presently, equipment purchases are treated as expenditures at the time of purchase, while most building costs are expensed in the capital projects fund and then recorded in the general fixed assets group of accounts.

The superintendent is not sure how he would like these costs to be treated, so he has directed the business manager to experiment with three approaches:

1. Treat equipment purchases as expenditures of the current year and ignore building costs, as is now done;
2. Capitalize all property purchases and depreciate them; or
3. Capitalize all property purchases and apply some sort of building and equipment use cost in place of depreciation.

Thus, three different formulae for cost allocation will be used.

Year-End Data

At the end of the fiscal year, the LEA had recorded the information in its financial accounting records shown by table 3. In addition, the following adjusted statistical information was extracted from the annual statistical report to the State.

Statistical Data

Program	Allocation bases							
	ADM		Teaching staff (FTE)		Square feet assigned		Miles driven	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Regular education	6,160	75	310	42	300,000	33	350,000	70
Special education	820	10	160	21	80,000	9	47,000	9
Vocational education	1,230	15	185	25	123,000	13	70,000	14
Other PK-12 education	–	–	90	12	200,000	22	35,000	7
Adult/continuing education	–	–	–	–	50,000*	5	–	–
Community services	–	–	–	–	20,000*	2	–	–
Food services	–	–	–	–	150,000	16	–	–
Totals	8,210	100	745	100	923,000	100	502,000	100

*Arbitrarily assigned.

Table 3.–Hypothetical LEA: Financial data for FY 19XX

Program	Function	Total direct expenditures	Amount expended for property	Total direct expenditures, less property
100 – Regular education	All	$5,436,780	$69,217	$5,367,536
200 – Special education	All	1,200,077	59,918	1,140,159
300 – Vocational education	All	3,504,668	154,320	3,350,348
400 – Other PK-12 education	All	436,000	12,900	423,100
600 – Adult/continuing education	All	662,518	19,878	642,640
800 – Community services	All	75,322	2,259	73,063
910 – Food services	All	555,722	16,671	539,051
000 – Undistributed	2100 – Student support	33[illegible]118	10,053	325,065
000 – Undistributed	2200 – Instructional support	117,000	3,510	113,490
000 – Undistributed	2400 – school administration	472,744	14,181	458,563
000 – Undistributed	2600 – Operation and maintenance of plant	952,477	16,025	936,452
000 – Undistributed	2700 – Student transportation	1,152,684	45,604	1,107,080
000 – Undistributed	2300, 2500, 2800, 2900 – Other administration	252,486	7,575	244,911
000 – Undistributed	4000 – Facilities acquisition and construction	1,120,000	1,120,000	–
Total direct expenditures		$16,273,596	$1,552,111	$14,721,485

For the fiscal year, the hypothetical LEA's Statement of Changes in Fund Balance for the general fixed assets group of accounts read:

	Beginning balance	Additions	Deletions	Ending balance
Site	$1,206,000	$ –	$ –	$1,206,000
Buildings	17,554,170	1,120,000	–	18,674,170
Equipment	2,622,998	432,111	(55,274)	2,999,835
Totals	$21,383,168	$1,552,111	$ (55,274)	$22,880,005

The direct cost data in table 3, and the additional statistical and financial data given above, constituted all the information needed by the business manager for program costing. With these data, the three computations of program costs were made.

Method 1—Equipment as Current Expenditure

The first approach considered involves treating equipment costs as current expenditures and ignoring any current costs for the use of the buildings. This approach has the advantage of being simpler to use but does not do a very good job of relating the costs of use of buildings and equipment to the programs (or periods) in which they are used. Since equipment is to be direct-charged to programs at the time of purchase, this method involves only two steps to calculate program costs:

1. Allocating the support service (indirect) costs to programs; and
2. Computing program cost totals.

Allocating Support Services Costs

The allocation of support services costs to programs has two parts: calculating the percentage of costs that apply to each program; and computing the amount to be allocated to each. For example, the first indirect cost pool to be allocated is student support—a total of $335,118 (see table 3). It has been decided that this pool will be allocated using the percentage of ADM assigned to each program (from the statistical data on page 63) as follows:

Program	ADM		Allocation of student support costs
	Number	Percent	
Amount to be allocated			$335,118
Regular education	6,160	75	251,338
Special education	820	10	33,512
Vocational education	1,230	15	50,268
Other PK-12 education	–	0	0
Adult/continuing education	–	0	0
Community services	–	0	0
Food services	–	0	0

Similarly, all the indirect cost pools will be allocated as shown by table 4. The basis used to allocate Other Administration costs is Total Direct Program Expenditures (direct program dollars). The ratios for this basis are the ratios of direct expenditures in each program to total direct expenditures for those programs. The percentages to be used are:

Program	Amount	Percent
Regular education	$5,436,780	46
Special education	1,200,077	10
Vocational education	3,504,668	29*
Other PK-12 education	436,000	4

Program	Amount	Percent
Adult/continuing education	662,518	5*
Community services	75,322	1
Food service	555,722	5
Totals	$11,871,087	100

*Adjusted for rounding.

Computing Program Costs

Total program costs under method 1 are then computed as follows:

Program	Total direct charges	Allocated costs	Total program costs
Regular education	$5,436,780	$1,736,370	$7,173,150
Special education	1,200,077	372,072	1,572,149
Vocational education	3,504,668	556,123	4,060,791
Other PK-12 education	436,000	371,101	807,101
Adult/continuing education	662,518	60,248	722,766
Community services	75,322	21,575	96,897
Food services	555,722	165,020	720,742
Totals	$11,871,087	$3,282,509	$15,153,596

Method 2—Depreciating Property

To perform the indirect cost calculation using depreciation (method 2), it is necessary first to deduct equipment and building costs from the total direct expenditures figure and to capitalize them along with other property acquired earlier. The deductions are shown in table 3, and the totals capitalized this year in the general fixed assets group of accounts are shown on page 64.

Obviously, this approach involves more bookkeeping. However, it has the clear advantage of relating the costs of equipment use to the periods in which they are used. Further, it recognizes that there is a cost associated with the use of the buildings, although some would consider that a sunk cost. This factor was ignored in the first approach.

Using the depreciation approach, three steps are needed to complete the program costing activity:

1. Computing the amount to be depreciated. For this purpose, the simplest method available was used–straight line depreciation of equipment over 10 years and buildings over 50 years. The resulting depreciation amounts will be placed in cost pools for allocation to programs on a budget year basis;
2. Allocating indirect costs (including depreciation) to programs; and
3. Computing program cost totals.

Depreciation

The tabulation on page 64 shows that the LEA has total undepreciated property at the end of the fiscal year amounting to $22,880,005. Since land is not depreciated, the depreciation calculation is as follows:

Table 4.–Example 1–hypothetical LEA: allocation of indirect costs to programs

Program	Indirect Cost Pools												Total amount to be allocated
	Student support		Instructional support		School administration		Other administration		Operation and maintenance		Student transportation		
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	
To be allocated	100	$335,118	100	$117,000	100	$472,744	100	$252,486	100	$952,477	100	$1,152,684	$3,282,509
Allocation basis	ADM		FTE staff		FTE staff		Direct program costs		Square feet		Miles driven		–
Regular education	75	251,338	42	49,140	42	198,553*	46	116,144*	33	314,317	70	806,878*	1,736,370
Special education	10	33,512	21	24,570	21	99,276	10	25,249	9	85,723	9	103,742	372,072
Vocational education	15	50,268	25	29,250	25	118,186	29	73,221	13	123,822	14	161,376	556,123
Other PK-12 education	–	–	12	14,040	12	56,729	4	10,099	22	209,545	7	80,688	371,101
Adult/continuing education	–	–	–	–	–	–	5	12,624*	5	47,624	–	–	60,248
Community services	–	–	–	–	–	–	1	2,525	2	19,050	–	–	21,575
Food service	–	–	–	–	–	–	5	12,264	16	152,396	–	–	165,020

*Amounts rounded to balance.

	Undepreciated amount	Annual depreciation factor	Annual depreciation
Buildings	$18,674,170	.02	$373,483
Equipment	2,999,835	.10	299,984
Total			$673,467

Indirect Cost Allocation

Using these data, the LEA computed the allocation of each indirect cost pool to the programs. The results are shown by table 5. Notice that the amounts to be allocated in the first six pools changed from example 1 because equipment costs are not included. To simplify this computation, add equipment depreciation to the amount in the Other Administration pool and building depreciation to the amount in the Operation and Maintenance pool before computing the allocations. This could be done because the allocation bases selected in these cases were the same.

Program Cost Computation

Program	Total direct expenditures (less property)	Allocated costs (including depreciation)	Total program costs
Regular education	$5,367,563	$1,941,944	$7,309,507
Special education	1,140,159	424,658	1,564,817
Vocational education	3,350,348	675,076	4,025,424
Other PK-12 education	423,100	456,125	879,225
Adult/continuing education	642,640	92,742	735,382
Community services	73,063	31,648	104,711
Food services	539,051	236,835	775,886
Totals	$11,535,924	$3,859,028	$15,394,952

Total program costs shown using this method were higher by $241,356. The difference can be reconciled this way:

	Method #1	Method #2	Difference
Equipment expenditures	$432,111	$ –	–
Equipment depreciation	–	299,984	–
Building depreciation	–	373,483	–
Totals	$432,111	$673,467	$241,356

Table 5.–Example 2–hypothetical LEA: allocation of indirect costs to programs

Program	Student support		Instructional support		School administration		Other administration[1]		Operation and maintenance[2]		Student transportation		Total amount to be allocated
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	
To be allocated	100	$325,065	100	$113,490	100	$458,563	100	$544,895	100	$1,309,935	100	$1,107,080	$3,859,028
Allocation basis	ADM		FTE staff		FTE staff		Direct program costs		Square feet		Miles driven		–
Regular education	75	243,799	42	47,666	42	192,596	46	250,650*	33	432,278*	70	774,956	1,941,944
Special education	10	32,506	21	23,833	21	96,298	10	54,490	9	117,894	9	99,637	424,658
Vocational education	15	48,760	25	28,372	25	114,641	29	158,020	13	170,292	14	154,991	675,076
Other PK-12 education	–	–	12	13,619	12	55,028	4	21,796	22	288,186	7	77,496	456,125
Adult/continuing education	–	–	–	–	–	–	5	27,245	5	65,497	–	–	92,742
Community services	–	–	–	–	–	–	1	5,449	2	26,199	–	–	31,648
Food services	–	–	–	–	–	–	5	27,245*	16	209,590	–	–	236,835

*Amounts rounded to balance.

[1] Including equipment depreciation of $299,984.

[2] Including building depreciation of $373,483.

Method 3—Building and Equipment Use Charges

The calculation using building and equipment use charges is similar to the depreciation method, except that a use charge is substituted for the depreciation charge. Some believe this to be a fairer way of accounting for the utilization of property since it can be established to reflect replacement cost. The problem with using depreciation as a current charge is that depreciation is calculated as a percentage of the original cost of the item–a cost which may have been "booked" years ago.

There is no agreed-upon standard approach for calculating use charges. Therefore, to establish a cost base which more nearly represented the current value of the LEA's property, it was decided to use the annual valuation made for insurance purposes. For the current year, that valuation was:

Buildings	$22,185,004
Equipment	$4,049,034

To this increased base cost the same percentages are applied as with the depreciation method (i.e., buildings, 2 percent; equipment, 10 percent) to arrive at equitable use charges. The amounts so computed and entered into the indirect cost pools then were:

Operation and maintenance (building use charges)	$22,185,004 x .02 = $443,700
Other administration (equipment use charges)	$4,049,034 x .10 = $404,903

Indirect Cost Allocation

The indirect cost allocation using these data is shown by table 6.

Computing Program Costs

For this final method, the program cost computation was:

Program	Total direct expenditures (less property)	Allocated costs (including use charges	Total program costs
Regular education	$5,367,563	$2,013,381	$7,380,944
Special education	1,140,159	441,469	1,581,628
Vocational education	3,350,348	714,630	4,064,978
Other PK-12 education	423,100	475,769	898,869
Adult/continuing education	642,640	101,499	744,139
Community services	73,063	34,101	107,164
Food services	539,051	253,315	792,366
Totals	$11,535,924	$4,034,164	$15,570,088

Analysis

A summary, which is shown by table 7, indicates the following conclusions:

1. In relation to the overall costs of operating major programs, there does not seem to be much difference in the method used. However, if looked at in context of property charges only, costs applied vary by almost 100 percent between methods.
2. The costs of each program as a percent of the total expenses did not vary much from one method to the other, although the per-student expenses would be considerably different with the three methods.

Table 6.–Example 3–hypothetical LEA: allocation of indirect costs to programs

Program	Student support		Instructional support		School administration		Other administration[1]		Operation and maintenance[2]		Student transportation		Total amount to be allocated
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	
To be allocated	100	$325,065	100	$113,490	100	$458,563	100	$649,814	100	$1,380,152	100	$1,107,080	$4,034,164
Allocation basis	ADM		FTE staff		FTE staff		Direct program costs		Square feet		Miles driven		
Regular education	75	243,799	42	47,666	42	192,596	46	289,914	33	455,450	70	774,956	2,013,381
Special education	10	32,506	21	23,833	21	96,298	10	64,981	9	124,214	9	99,637	441,469
Vocational education	15	48,760	25	28,372	25	114,641	29	188,446	13	179,420	14	154,991	714,630
Other PK-12 education	–	–	12	13,619	12	55,028	4	25,993	22	303,633	7	77,496	475,769
Adult/continuing education	–	–	–	–	–		5*	32,491	5	69,008	–	–	101,499
Community services	–	–	–	–	–	–	1	6,498	2	27,603	–	–	34,101
Food services	–	–	–	–			5	32,491	16	220,824	–	–	253,315

*Amounts rounded to balance.

[1] Including equipment use charges of $404,903.

[2] Including building use charges of $443,700.

Table 7.–Hypothetical LEA: program cost accounting comparison

Program	Method #1 (expenditures for equipment only)		Per-student cost*	Method #2 (depreciation)		Per-student cost*	Method #3 (building use charge)		Per-student cost*
	Amount	Percent		Amount	Percent		Amount	Percent	
Regular education	$7,173,150	47.3	$1,165	$7,309,507	47.5	$1,187	$7,380,944	47.4	$1,198
Special education	1,572,149	10.4	1,917	1,564,817	10.2	1,908	1,581,628	10.1	1,929
Vocational education	4,060,791	26.8	3,301	4,025,424	26.1	3,273	4,064,978	26.1	3,305
Other PK-12 education	807,101	5.3		879,225	5.7		898,869	5.8	
Adult/continuing education	772,766	4.8		735,382	4.8		744,139	4.8	
Community services	96,897	0.6		104,711	0.7		107,164	0.7	
Food services	720,742	4.8		775,886	5.0		792,366	5.1	
Totals	$15,153,596	100.0		$15,394,952	100.0		$15,570,088	100.0	

*Uses ADM (Table IV) as the divisor.

3. When property use charges are applied, citizens' concerns about some of the LEA's peripheral programs seem to be borne out. Costs for Other PK-12 Education increased by 12 percent, and for Food Services by 10 percent when the cost of the facilities provided them is considered.

Reporting Program Cost Results

Table 8 shows a Statement of Current Expense prepared using method 3 as the basis of presenting program costs to the board and the public. In this presentation, the focus is on reconciling the program cost analysis to the expenditures reported in the general purpose financial statements.

Units of Measure

A variety of measures are developed for operating schools that use financial data. Among them are: current expenditures, per-student cost, and excess costs.

Current Expenditures

"Current expenditures" is a term describing the expenditures of the current year used to educate elementary/secondary students. In general, *current expenditures* include all current outlays of the LEA for elementary/secondary education, not including outlays for: (1) acquiring property; (2) enterprise-type operations of the LEA (whether or not included in the proprietary funds) recovered through offsetting revenues; and, (3) debt retirement.

"Current expenditures per student" is a measure used for several different purposes by users of educational data. These include: comparing program costs between States and LEA's; measuring the quality of educational opportunity; and reimbursing direct expenditures under various State and Federal aid programs. Generally, these costs will be most useful when compared on a program basis. *Current expenditures per student* is a ratio composed of two measures, each of which is described separately.

** Using the expenditure classification structure contained in this handbook, "current expenditures" include all expenditures for elementary/secondary education from pre-kindergarten through grade 12 for programs 100-400 (regular elementary/secondary programs; special education programs; vocational education programs; cocurricular activities and athletics; enterprise programs; ROTC; driver education; summer school [even when students pay tuition to attend]) for the functions of instruction, support services and operation of non-instructional services (1000 through 3000). Expenditures for acquiring property (object class 700) and revenues from fees and charges to individuals (account codes 1310, 1410, 1600, 1700, and 1940) must be subtracted from this amount.

Specifically excluded are expenditures for nonpublic school programs; adult/continuing education; community/junior college education; and community services programs (including day care), and the functions of facilities acquisition and construction services and other financing sources (4000 and 5000).

Current Expenditure Per Student

Current expenditure per student is a measure of long standing, indicating, to some extent, community effort. It was adopted when general or basic education comprised most of the educational curriculum. The extension of the school day and school year to include special education, vocational education, adult/continuing education, and community services in evening and summer sessions has tended to make less valuable the per-student expenditure measure. The reason is that the units being compared are less alike. On the other hand, this measure has become increasingly important as the emphasis on achieving equality of educational opportunities has increased.

The units to be compared in determining per-student expenditures are:

1. The types of activities (programs) for which expenditures are made (e.g., regular, vocational, special educational);
2. Length of time students are in session (e.g., six hours per day for 180 days versus three hours for 80 days in the summer session or three hours per session for 36 sessions in the evening classes); and
3. The student unit of measure (e.g., average daily membership, average daily attendance, enrollment, or other).

As these three types of units approach similarity, the comparison of per-student expenditure measure has more meaning. The per-student expenditures for an elementary school have value when comparing them to

Table 8.–Hypothetical LEA: current fund–statement of current expense, by program year ended June 30, 19XX

Program	Direct expenditures	Allocated expenditures	Building equipment use charges	Total program expense
Regular education	$5,367,563	$1,680,705	$332,676	$7,380,944
Special education	1,140,159	361,046	80,423	1,581,628
Vocational education	3,350,348	539,527	175,103	4,064,978
Other PK-12 education	423,100	361,959	113,810	898,869
Adult/continuing education	642,640	59,068	42,431	744,139
Community services	73,063	21,178	12,923	107,164
Food services	539,051	162,078	91,237	792,366
Undistributed expenditures	3,185,561	(3,185,561)	0	0
Total current expense	$14,721,485	0	$848,603	$15,570,088
Expenditures for property	1,552,111			
Total expenditures	$16,273,596			

another elementary school. But those of a secondary school in which there exists only a program for preparing students for postsecondary education may not be comparable to expenditures in a school which prepares students only for immediate employment. Similarly, the per-student expenditures of an LEA where the programs consist of elementary and secondary education are not comparable to those in an LEA that, in addition to the above-mentioned programs, has adult/continuing education programs. Therefore, it becomes important to specify the program for which the per-student expenditures are made.

In this handbook, for purposes of comparability and to indicate LEA effort, it is recommended that average daily membership be used in computing per-student expenditures and that, when using them without reference to particular programs, they be computed for elementary and secondary education only in regular day session. In most cases, it will be desirable to express the average daily membership in terms of full-time-equivalent (FTE) students assigned to programs.

The procedure for computing the current expenditures per student for an LEA, then, would be to sum all current expenditures (defined above) for public elementary and secondary education in the regular day session (subtracting the expenditures for all other programs and their prorated share of the support programs). Then divide the sum by the average daily membership (or other measure of attendance) for the year.

When computing the per-student expenditures for a particular LEA program, such as vocational education, it is important to include all costs–prorated indirect costs and direct costs. In other words, those indirect costs of vocational education, such as operation and maintenance, student support services, staff support services, and others, must be included. This procedure was discussed previously.

Current expenditures per student can be calculated for each program by dividing the current expenditures of that program by the unit of measure of student attendance in that program.

Excess Costs for Special Education

Laws governing the use of Federal funds for special programs to educate the handicapped dictate that such funds may only be used to pay the excess costs of providing special education and related services for handicapped children. "Excess costs" are defined as: "Those costs which are in excess of the average annual per student expenditure in a local educational agency during the preceding school year for an elementary or secondary school student, as may be appropriate."[10]

Using the classifications presented here, excess costs may be computed as follows:

1. The LEA determines current expenditures (calculated as above) for students in the regular, vocational and other instructional (PK-12) programs. This includes an allocation of indirect support services costs to these programs;
2. This total is then divided by the number of full-time-equivalent (FTE) students (including "main-streamed" handicapped students) in these programs, giving "average annual per-student expenditures";
3. Total current expenditures for special education programs are then calculated (including allocated indirect support services). Amounts expended for equipment (object 730) in the special programs should be added;
4. This total is divided by the FTE students in handicapped programs to arrive at average annual per-student expenditures for special education programs;
5. The amount calculated in step 4 is reduced by the average annual per-student expenditure amount arrived at in step 2 to give "excess costs."

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[10] P.L. 91-230, as amended by P.L. 94-142, Part B, Section 602(20), quoted from *A Compendium of Federal Education Laws (as Amended Through June 30, 1977)*, U.S. Government Printing Office, Washington, D.C., 1977, pg. 765.

Chapter 6

Account Classification Descriptions

This chapter details the categories for revenue, expenditure, and balance sheet accounts described in chapter 3. Since the fund codes apply to all three types of accounts, they are described separately at the outset.

Fund Classifications

Code *Description*

1 **General Fund**. Accounts for all financial resources of the LEA except those required to be accounted for in another fund.

2 **Special Revenue Funds**. Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. Some examples of special revenue funds might include:

- Restricted State or Federal grants-in-aid;
- Restricted tax levies.

A separate fund may be used for each restricted source, or one fund may be used supplemented by the dimension Project/Reporting code.

3 **Capital Projects Funds**. Account for financial resources used to acquire or construct major capital facilities (other than those of proprietary funds and trust funds). The most common source of revenue in this fund would be the sale of bonds. A separate fund may be used for each capital project or one fund may be used, supplemented by the dimension Project/Reporting code.

4 **Debt Service Funds**. Account for the accumulation of resources for, and the payment of, general long-term debt, principal and interest.

5 **Enterprise Funds**. Account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation and indirect costs) of providing goods or services to the students or general public on a continuing basis are financed or recovered primarily through user charges. Enterprise funds are also used to account for operations where the school board or State regulatory agency has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Some examples of enterprise funds might include funds used for the food service program, the bookstore operation, the athletic stadium and the community swimming pool.

6 **Internal Service Funds**. Account for the operation of LEA functions that provide goods or services to other LEA functions, other LEA's, or to other governmental units, on a cost-reimbursable basis. Some examples of internal service funds could include those used for central warehousing and purchasing, central data processing, and central printing and duplicating.

7 **Trust and Agency Funds**. Account for assets held by an LEA in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds would include nonexpendable trust funds, expendable trust funds, and pension trust funds. Agency funds could include a central payroll account, and funds for a teacher or a parent-teacher organization.

Fund Classifications (continued)

8 **General Fixed Assets Account Group.** Records the cost of all property, plant and equipment other than those accounted for in the proprietary funds or fiduciary funds. General fixed assets could include sites, site improvements, buildings and building improvements, machinery and equipment.

9 **General Long-Term Debt Account Group.** Records the principal amount of all long-term liabilities, excluding those of the proprietary funds or fiduciary funds. The long-term liabilities could include general obligation bonds, capitalized lease obligations, legal judgments, special assessments payable to cities or other governmental units, unfunded pension liabilities, and notes and warrants which are not due within one year.

Classifications of Revenue and Other Fund Sources

Code	*Description*
1000	**Revenue From Local Sources**
1100	**Taxes Levied/Assessed by the LEA.** Compulsory charges levied by the LEA to finance services performed for the common benefit.
1110	*Ad Valorem Taxes.* Taxes levied by an LEA on the assessed value of real and personal property located within the LEA which, within legal limits, is the final authority in determining the amount to be raised for school purposes. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1140.
1120	*Sales and Use Taxes.* Taxes assessed by the LEA imposed upon the sale and consumption of goods and services. It can be imposed upon the sale and consumption either as a general tax on the retail price of all goods and/or services sold within the LEA jurisdiction with few or limited exemptions, or as a tax upon the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1140.
1130	*Income Taxes.* Taxes assessed by the LEA, and measured by net income—that is, by gross income less certain deductions permitted by law. These taxes can be levied on individuals, corporations, or unincorporated businesses where the income is taxed distinctively from individual income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1140.
1140	*Penalties and Interest on Taxes.* Revenue from penalties for the payment of taxes after the due date, and the interest charged on delinquent taxes from the due data of actual payment. A separate account for penalties and interest on each type of tax may be maintained.
1190	*Other Taxes.* Other forms of taxes the LEA levies/assesses, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.
1200	**Revenue From Local Governmental Units Other Than LEA's.** Revenue from the appropriations of another local governmental unit. The LEA is not the final authority, within legal limits, in determining the amount of money to be received, and the money is raised by taxes or other means which are not earmarked for school purposes. This classification could include revenue from townships, municipalities, counties, etc. In a city school system, the municipality would be considered a local governmental unit. In this instance, revenue from the county would be considered revenue from an intermediate source and coded in the 2000 revenue series.
1210	*Ad Valorem Taxes.* Taxes levied for school purposes by a local governmental unit other than the LEA. The LEA is not the final authority, within legal limits, in determining the amount

Code	*Description*
	to be raised. For example, after an LEA has determined that a certain amount of revenue is necessary, another governmental unit may exercise discretionary power in reducing or increasing the amount. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1240.
1220	*Sales and Use Tax.* Taxes assessed by a local governmental unit other than an LEA and imposed upon the sale and consumption of goods and services. It can be imposed either as a general tax on the retail price of all goods and/or services sold within the LEA jurisdiction with few or limited exemptions; or as a tax upon the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1240.
1230	*Income Taxes.* Taxes assessed by a local governmental unit other than an LEA, measured by net income–that is, by gross income less certain deductions permitted by law. These taxes can be levied on individuals, corporations, or unincorporated businesses where there is income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1240.
1240	*Penalties and Interest on Taxes.* Revenue from penalties for the payment of taxes after the due date, and the interest charged on delinquent taxes from the due date of actual payment. A separate account for penalties and interest on each type of tax may be maintained.
1280	*Revenue in Lieu of Taxes.* Payments made out of general revenues by a local governmental unit to the LEA in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the LEA on the same basis as privately owned property. Such revenue would include payments made for privately owned property which is not subject to taxation on the same basis as other privately owned property due to action by the local governmental unit.
1290	*Other Taxes.* Other forms of taxes by a local governmental unit other than an LEA, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.
1300	**Tuition.** Revenue from individuals, welfare agencies, private sources and other LEA's for education provided by the LEA.
1310	*Tuition From Individuals.*
1320	*Tuition From Other LEA's Within the State.*
1330	*Tuition From Other LEA's Outside the State.*
1340	*Tuition From Other Sources.*
1400	**Transportation Fees.** Revenue from individuals, welfare agencies, private sources, or other LEA's for transporting students to and from school and school activities.
1410	*Transportation Fees From Individuals.*
1420	*Transportation Fees From Other LEA's Within the State.*
1430	*Transportation Fees From Other LEA's Outside the State.*
1440	*Transportation Fees From Other Sources.*

Fund Classifications (continued)

Code	*Description*
1500	**Earnings on Investments**. Revenue from holdings invested for earning purposes.
1510	*Interest on Investments.* Interest revenue on temporary or permanent investments in United States treasury bills, notes, savings accounts, time certificates of deposit, mortgages, or other interest-bearing investments.
1520	*Dividends on Investments.* Revenue from dividends on stocks held for investment.
1530	*Gains or Losses on Sale of Investments.* Gains or losses realized from the sale of bonds or stocks. Gains represent the excess of the sales proceeds over cost or any other basis as of the date of sale (cost less amortization of premium in the case of long-term bonds purchased at a premium over par value, or cost plus amortization of discount on long-term bonds purchased at a discount under par value). Gains realized from the sale of U.S. treasury bills represent interest income and should be credited to account 1510. Losses represent the excess of the cost or any other basis at date of sale (as described above) over the sales proceeds.
1540	*Earnings on Investment in Real Property.* Revenue for rental, use charges and other income on real property held for investment purposes.
1600	**Food Service**. Revenue for dispensing food to students and adults.
1610	*Daily Sales – Reimbursable Programs.* Revenue from students for the sale of breakfasts, lunches and milk which are considered reimbursable by the United States Department of Agriculture. Federal reimbursements are not entered here. They should be recorded under Revenue Source 4500.
1611	*Daily Sales – School Lunch Program.* Revenue from students for the sale of reimbursable lunches as part of the National School Lunch Program.
1612	*Daily Sales – School Breakfast Program.* Revenue from students for the sale of reimbursable breakfasts as part of the School Breakfast Program.
1613	*Daily Sales – Special Milk Program.* Revenue from students for the sale of reimbursable milk as part of the Special Milk Program.
1620	*Daily Sales – Non-Reimbursable Programs.* Revenue from students or adults for the sale of non-reimbursable breakfasts, lunches and milk. This category would include all sales to adults, the second type A lunch to students and a la carte sales.
1630	*Special Functions.* Revenue from students, adults or organizations for the sale of food products and services considered special functions. Some examples would include pot lucks, PTA-sponsored functions and athletic banquets.
1700	**Student Activities**. Revenue from school-sponsored activities.
1710	*Admissions.* Revenue from patrons of a school-sponsored activity such as a concert or football game.
1720	*Bookstore Sales.* Revenue from sales by students or student-sponsored bookstores.
1730	*Student Organization Membership Dues & Fees.* Revenue from students for memberships in school clubs or organizations.

Code	Description
1740	*Fees.* Revenue from students for fees such as locker fees, towel fees, and equipment fees. Transportation fees are recorded under the appropriate account in the 1400 series.
1790	*Other Student Activity Income.* Other revenue from student activities.
1800	**Revenue From Community Services Activities.** Revenue from community services activities operated by an LEA. For example, revenue received from operation of a skating facility by an LEA as a community service would be recorded here. Multiple accounts may be established within the 1800 series to differentiate various activities.
1900	**Other Revenue From Local Sources.** Other revenue from local sources not classified above.
1910	*Rentals.* Revenue from the rental of either real or personal property owned by the school. Rental of property held for income purposes is not included here, but is recorded under account 1540.
1920	*Contributions and Donations From Private Sources.* Revenue from a philanthropic foundation, private individuals, or private organizations for which no repayment or special service to the contributor is expected.
1930	*Gains or Losses on Sale of Fixed Assets.* The amount of revenue over the book value of the fixed assets sold. For example, the gain on the sale would be the portion of the selling price received in excess of the depreciated value (book value). This account is used in the Proprietary Funds only. Account 5300 is used for funds other than Proprietary.
1940	*Textbook Sales and Rentals.* Revenue from the rental or sale of textbooks.
1941	*Textbook Sales.* Revenue from the sale of textbooks.
1942	*Textbook Rentals.* Revenue from the rental of textbooks.
1950	*Services Provided Other LEA's.* Revenue from services provided other LEA's other than for tuition and transportation services. These services could include data processing, purchasing, maintenance, cleaning, consulting, and guidance.
1951	*Services Provided Other LEA's Within the State.* Revenue from services to other LEA's within the State.
1952	*Services Provided Other LEA's Outside the State.* Revenue from services to LEA's outside the State.
1960	*Services Provided Other Local Governmental Units.* Revenue from services provided other local governmental units. These services could include transportation, data processing, purchasing, maintenance, cleaning, cash management and consulting.
1970 *	*Services Provided Other Funds.* Services provided other funds for services such as printing or data processing. This account would only be used in the Internal Service Funds.
1990	*Miscellaneous.* Revenue from local sources not provided for elsewhere.
2000	**Revenue From Intermediate Sources**
2100	**Unrestricted Grants-In-Aid.** Revenue recorded as grants by the LEA from an intermediate unit which can be used for any legal purpose desired by the LEA without restriction. Separate accounts may be maintained for general source grants-in-aid which are not related to specific

UPDATE

July 1990

ADDITION OF NEW REVENUE SUBFUNCTION UNDER 1900 "OTHER REVENUE FROM LOCAL SOURCES." (P.81)

1980 *Refund of Prior Year's Expenditures*. Include here if expenditure occurred last year, and the refund this year. If refund and expenditure occurred in current year, reduce this year's expenditures, as prescribed by GAAP.

Fund Classifications (continued)

Code	*Description*
	revenue sources of the intermediate governmental unit, and for those assigned to specific sources of revenue as appropriate.
2200	**Restricted Grants-In-Aid**. Revenue recorded as grants by the LEA from an intermediate unit which must be used for a categorical or specific purpose. If such money is not completely used by the LEA, it must be returned, usually, to the intermediate governmental unit. Separate accounts may be maintained for general source grants-in-aid which are not related to specific revenue sources of the intermediate governmental unit, and for those assigned to specific sources of revenue as appropriate.
2800	**Revenue in Lieu of Taxes**. Commitments or payments made out of general revenues by an intermediate governmental unit to the LEA in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the LEA on the same basis as privately owned property or other tax base. It would include payment made for privately owned property which is not subject to taxation on the same basis as other privately owned property due to action by the intermediate governmental unit.
2900	**Revenue for/on Behalf of the LEA**. Commitments or payments made by an intermediate governmental jurisdiction for the benefit of the LEA, or contributions of equipment or supplies. Such revenue includes the payment to a pension fund by the intermediate unit on behalf of an LEA employee for services rendered to the LEA, and a contribution of fixed assets by an intermediate unit to the LEA. Separate accounts should be maintained to identify the specific nature of the revenue item.
3000	**Revenue From State Sources**
3100	**Unrestricted Grants-In-Aid.** Revenue recorded as grants by the LEA from State funds which can be used for any legal purpose desired by the LEA without restriction. Separate accounts may be maintained for general grants-in-aid which are not related to specific revenue sources of the State, and for those assigned to specific sources of revenue as appropriate.
3200	**Restricted Grants-In-Aid**. Revenue recorded as grants by the LEA from State funds which must be used for a categorical or specific purpose. If such money is not completely used by the LEA, it must be returned, usually, to the State. Separate accounts may be maintained for general-source grants-in-aid which are not related to specific revenue sources of the State, and for those assigned to specific sources of revenue as appropriate.
3800	**Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by a State to the LEA in lieu of taxes it would have had to pay had its property or other tax base been subject to the taxation by the LEA on the same basis as privately owned property. It would include payment made for privately owned property which is not subject to taxation on the same basis as other privately owned property due to action by the State.
3900	**Revenue for/on Behalf of the LEA**. Commitments or payments made by a State for the benefit of the LEA, or contributions of equipment or supplies. Such revenue includes the payment of a pension fund by the State on behalf of an LEA employee for services rendered to the LEA, and a contribution of fixed assets by a State unit to the LEA. Separate accounts may be maintained to identify the specific nature of the revenue item.
4000	**Revenue From Federal Sources** (See appendix E for detailed listing of Federal sources)
4100	**Unrestricted Grants-In-Aid Direct From the Federal Government**. Revenues direct from the Federal Government as grants to the LEA which can be used for any legal purpose desired by the LEA without restriction.

Code	*Description*
4200	**Unrestricted Grants-In-Aid From the Federal Government Through the State.** Revenues from the Federal Government through the State as grants which can be used for any legal purpose desired by the LEA without restriction.
4300	**Restricted Grants-In-Aid Direct From the Federal Government.** Revenue direct from the Federal Government as grants to the LEA which must be used for a categorical or specific purpose. If such money is not completely used by the LEA, it usually is returned to the governmental unit.
4500	**Restricted Grants-In-Aid From the Federal Government Through the State.** Revenues from the Federal Government through the State as grants to the LEA which must be used for a categorical or specific purpose.
4700	**Grants-In-Aid From the Federal Government Through Other Intermediate Agencies.** Revenues from the Federal Government through an intermediate agency.
4800	**Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by the Federal Government to the LEA in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the LEA on the same basis as privately owned property or other tax base. Such revenue would include payment made for privately owned property which is not subject to taxation on the same basis as other privately owned property due to action by the Federal Governmental unit.
4900	**Revenue for/on Behalf of the LEA.** Commitments or payments made by the Federal Government for the benefit of the LEA, or contributions of equipment or supplies. Such revenue includes a contribution of fixed assets by a Federal governmental unit to the LEA and foods donated by the Federal Government to the LEA. Separate accounts should be maintained to identify the specific nature of the revenue item.
5000	**Other Sources**
5100	**Sale of Bonds.** The proceeds from the sale of bonds.
5110	*Bond Principal.* Proceeds of principal from the sale of bonds.
5120	*Premium.* Proceeds from that portion of the sales price of bonds in excess of their par value. The premium represents an adjustment of the interest rate.
5130	*Accrued Interest.* Accrued interest realized from the sale of bonds. Used only when permitted by State law.
5200	**Interfund Transfers.** Amounts available from another fund which will not be repaid. *
5300	**Sale or Compensation for Loss of Fixed Assets.** Amounts available from the sale of school property or compensation for the loss of fixed assets. Any gain on the sale of fixed assets for the proprietary funds would be recorded in account 1930.

Classifications of Expenditures

Fund

Descriptions for the fund codes can be found on pages 77-78.

Program

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. Nine broad program areas are identified in this guide: regular education, special education, vocational education, other instructional (PK-12),

UPDATE

JULY 1990

Change 5000 "Other Sources" to 5000 "Other Financing Sources"

ADDITION OF REVENUE DESCRIPTION TO 5200, "INTERFUND TRANSFERS". (P. 83)

5200 **Interfund Transfers**

Self insurance receipts may be treated as interfund operating transfers. When expenditures are made for replacement of damaged or stolen equipment, the expenditure should appear as a 700 object under the appropriate function.

For those States that have an "indirect costs" item in their accounting manual, the receipt should be treated as a fund transfer, and as an actual expenditure in the appropriate function, typically 2300, "General Administration".

Receipts into a debt service fund for the eventual retirement of zero coupon bonds are to be treated as a fund transfer, as in the case of payments made to a sinking fund. Payments to escrow agents are recognized under Function 5100, object 940.

ADDITION OF NEW REVENUE SUBFUNCTION UNDER 5000, "OTHER FINANCING SOURCES". (P. 83)

5400	**Loans**. Proceeds from loans greater than 12 months.
5500	**Capital Lease**. Proceeds from leasing of properties.
5600	**Lease Purchases**. Proceeds from lease purchases.

Programs (continued)

non-public school, adult/continuing education, community/junior college education, community services, and enterprise. An undistributed expenditures category is added to accumulate expenditures that cannot be charged to one of the programs but can be allocated later by an indirect cost allocation process.

The program dimension provides the LEA the framework to classify expenditures by program to determine cost. Many SEA's have developed a function/object matrix for reporting financial information from the LEA to the SEA. In this system, the function dimension is used to gather instructional program information. In this process, only direct instructional costs are classified to the instruction function; those support costs which could be considered direct costs to an instructional program are classified to a support function. For example, special education transportation costs are classified to the support services function, transportation, even though they should be charged directly to the special education program. The program dimension allows agencies to charge program costs, instructional and support, directly to the benefitting program. Additionally, an agency using this dimension can classify support services both to programs and to functions.

Code	*Description*
	Pre-Kindergarten–Grade 12 Programs
100	**Regular Programs–Elementary/Secondary.** Activities that provide students in grades K-12 with learning experiences to prepare them for activities as citizens, family members, and non-vocational workers. These programs contrast with those designed to improve or overcome physical, mental, social and/or emotional handicaps.
200	**Special Programs.** Activities primarily for students having special needs. The Special Programs include pre-kindergarten, kindergarten, elementary, and secondary services for the gifted and talented, mentally retarded, physically handicapped, emotionally disturbed, culturally different, students with learning disabilities, bilingual students, special programs for other types of students.
210	**Mentally Retarded.** Activities for students identified as being mentally impaired according to the degree of impairment. Children in this category are classified educationally as educable mentally retarded and trainable mentally retarded.
211	*Educable Mentally Retarded.* Activities for students who, because of impaired intellectual development, are incapable of being educated profitably and efficiently through the regular education program.
212	*Trainable Mentally Retarded.* Activities for students who, because of impaired intellectual development, are incapable of being educated profitably and efficiently through the regular education program or the special education program for educable mentally retarded.
220	**Physically Handicapped.** Activities for students identified as having one or more physical handicaps, e.g., blindness, deafness, speech impairment, and lameness.
221	*Hard of Hearing.* Activities for students who, because of impaired physical development, cannot understand the spoken word or develop a language, thus suffering extreme deprivation in learning and communication.
222	*Deaf.* Activities for students who, because of impaired physical development, are totally unable to hear.
223	*Deaf-Blind.* Activities for students who, because of impaired physical development, are totally unable to hear or see and thus cannot develop their educational potential without specialized services.
224	*Visually Handicapped.* Activities for students who, because of impaired physical development, cannot see or have impaired vision and thus cannot develop their educational potential without specialized services.

Code	Description
225	*Speech Impaired.* Activities for students whose speech, because of impaired physical development, differs from normal speech to the extent that it hinders adequate communication and requires specialized services.
226	*Crippled.* Activities for students who, because of impaired physical development and/or deformities, diseases, and injuries of the bones, joints and muscles, are prevented from educational development.
227	*Other Health Impaired.* Activities for students who exhibit a physical or health impairment, either temporary or permanent, which interferes with their regular educational program.
230	**Emotionally Disturbed**. Activities for students who exhibit an emotional handicap of such a nature and severity as to require specialized services.
240	**Learning Disabled**. Activities for students identified as having deficiencies in one or more aspects of the cognitive process and as being underachievers in relation to the general level of their overall abilities.
250	**Culturally Deprived**. Activities for students whose background is so different from that of most other students that they need additional opportunities beyond those provided in the regular educational program.
260	**Bilingual**. Activities for students from homes where the English language is not the primary language spoken.
270	**Gifted and Talented**. Activities for students identified as being mentally gifted or talented.
300	**Vocational Programs.** Activities that provide students with the opportunity to develop the knowledge, skills and attitudes needed for employment in an occupational area.
310	**Agriculture**. Activities that enable students to acquire the background, knowledge, and skills necessary to enter a wide range of agriculturally-related occupations.
320	**Distributive Education**. Activities that prepare students to perform activities that direct the flow of goods and services, including their appropriate utilization, from the producer to the consumer.
330	**Health Occupations**. Activities that provide students with the knowledge, skills, and understanding required by occupations that support the health professions.
340	**Home Economics**. Activities that enable students to acquire knowledge and develop understanding, attitudes, and skills relevant to personal, home, and family life, and to home economics occupations.
341	*Occupational.* Activities that prepare students with knowledge, understanding and skills necessary to enter home economics occupations.
342	*Consumer and Homemaking.* Activities that prepare students to acquire knowledge and develop understanding, attitudes and skills relevant to personal, home and family life.
350	**Industrial Arts.** Activities that develop a student's understanding about all aspects of industry and technology. These include experimenting, designing, constructing, and evaluating; using tools, machines, materials; and using processes which may help individuals make informed and meaningful occupational choices, or may prepare them to enter advanced trade and industrial or technical education programs.

Programs (continued)

Code	*Description*
360	**Office Occupations**. Activities that prepare, upgrade, or retrain students for selected office occupations.
370	**Technical Education**. Activities that prepare students for job opportunities in a specialized field of technology.
380	**Trades and Industrial**. Activities that prepare students for initial employment in a wide range of trade and industrial occupations.
390	**Other Vocational Programs**. Other activities that provide students with the opportunity to develop the knowledge, skills and attitudes needed for employment in an occupational area.
400	**Other Instructional Programs–Elementary/Secondary**. Activities that provide students in grades K-12 with learning experiences not included in the Program codes 100-300, 500 and 600.
410	**School-Sponsored Cocurricular Activities**. School-sponsored activities, under the guidance and supervision of LEA staff, designed to provide students such experiences as motivation, enjoyment, and improvement of skills. Cocurricular activities normally supplement the regular instructional program and include such activities as band, chorus, choir, speech and debate. Also included are student-financed and -managed activities, such as: Class of 19XX, Chess Club, Senior Prom, and Future Farmers of America. Athletics are coded to Program 420.
420	**School-Sponsored Athletics**. School-sponsored activities, under the guidance and supervision of LEA staff, that provide opportunities for students to pursue various aspects of physical education. Athletics normally involve competition between schools and frequently involve offsetting gate receipts or fees.
490	**Other**. Activities that provide students with learning experiences not included in the other program 400 codes.

Code	*Description*
	Other Programs
500	**Non-Public School Programs**. Activities for students attending a school established by an agency other than the State, a subdivision of the State, or the Federal Government, which usually is supported primarily by othe. than public funds. The services consist of such activities as those involved in providing instructional services, attendance and social work services, health services, and transportation services for nonpublic school students.
600	**Adult/Continuing Education Programs**. Activities that develop knowledge and skills to meet immediate and long range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning; prepare students for a postsecondary career; prepare students for postsecondary education programs; upgrade occupational competence; prepare students for a new or different career; develop skills and appreciation for special interests; or to enrich the aesthetic qualities of life. Adult basic education programs are included in this category.
700	**Community/Junior College Education Programs**. Activities for students attending an institution of higher education which usually offers the first two years of college instruction. If the LEA has the responsibility of providing this program, all costs of the program should be coded here.
800	**Community Services Programs**. Activities which are not directly related to the provision of educational services in an LEA. These include services such as community recreation programs,

Code	*Description*
	civic activities, public libraries, programs of custody and care of children, and community welfare activities provided by the LEA for the community as a whole or some segment of the community.
810	**Community Recreation.** Activities concerned with providing recreation for the community as a whole, or for some segment of the community. Included are such staff activities as organizing and supervising playgrounds, swimming pools, and similar programs.
820	**Civic Services.** Activities concerned with providing services to civic affairs or organizations. This program area includes services to parent-teacher association meetings, public forums, lectures, and civil defense planning.
830	**Public Library Services.** Activities pertaining to the operation of public libraries by an LEA, or the provision of library services to the general public through the school library. Included are such activities as budgeting, planning and augmenting the library's collection in relation to the community, and informing the community of public library resources and services.
840	**Custody and Child Care Services.** Activities pertaining to the provision of programs for the custodial care of children in residential day schools, or child-care centers which are not part of, or directly related to, the instructional program, and where the attendance of the children is not included in the attendance figures for the LEA.
850	**Welfare Activities.** Activities pertaining to the provision of personal needs of individuals who have been designated as needy by an appropriate governmental entity. These needs include stipends for school attendance, salaries paid to students for work performed (whether for the LEA or for an outside concern), and for clothing, food, or other personal needs.
890	**Other Community Services.** Activities provided the community which cannot be classified under the other program 800 codes.
900	**Enterprise Programs.** Programs which are intended to be self-supporting. This program category would normally be used with the proprietary funds.
910	**Food Services.** Activities concerned with providing food service to students and staff. Most of the direct costs of this program will also be coded to function 3100.
990	**Other Enterprise Programs.** All other enterprise programs.
000	**Undistributed Expenditures.** All charges which are not readily assignable directly to a program are classified here. For program-costing purposes, the charges to functions in the 1000, 2000 and 3000 series and this account may be attributed indirectly to instructional, community service and enterprise programs. Charges to functions 4000 and 5000 and this program normally are *not* allocated to other programs. See chapter 5 for a discussion of techniques for allocating indirect costs.

Function

The function describes the activity for which a service or material object is acquired. The functions of an LEA are classified into five broad areas; Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction, and Other Outlays. Functions are further broken down into subfunctions and areas of responsibility.

Each of these levels consists of activities which have somewhat the same general operational objectives. Furthermore, categories of activities comprising each of these divisions and subdivisions are grouped according to the principle that the activities can be combined, compared, related and mutually exclusive. For example:

Function–support services	2000
Sub-function–school services-general administration	2300
Service area–board of education services	2310

Function (continued)

Area of responsibility–board treasurer services 2313

The function structure in these guidelines is not intended to dictate an organizational structure, i.e., how the administrative functions are organized. Rather, an effort has been made to group together functions in relation to the magnitude of expenditures typically found in the LEA. This grouping corresponds to the categories most frequently requested in reporting to external authorities. LEA's wishing to utilize an organizational structure within their account code should consider using the dimensions "instructional organization" and "operational unit."

Code *Description*

1000 * **Instruction.** Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities. It may also be provided through some other approved medium such as television, radio, telephone, and correspondence. Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process.

Used only with programs 100-700.

2000 **Support Services.** Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

2100 **Support Services–Students.** Activities designed to assess and improve the well-being of students and to supplement the teaching process.

2110 **Attendance and Social Work Services.** Activities designed to improve student attendance at school and which attempt to prevent or solve student problems involving the home, the school, and the community. Registration activities for adult education programs are included here.

2111 *Supervision of Attendance and Social Work Services.* The activities associated with directing, managing and supervising attendance and social work.

2112 *Attendance Services.* Activities such as promptly identifying nonattendance patterns, promoting improved attitudes toward attendance, analyzing causes of nonattendance, acting early on nonattendance problems, and enforcing compulsory attendance laws.

Usually used with program 000.

2113 *Social Work Services.* Activities such as investigating and diagnosing student problems arising out of the home, school, or community; casework and group work services for the child, parent, or both; interpreting the problems of students for other staff members; and promoting modification of the circumstances surrounding the individual student which are related to his or her problem.

Usually used with program 000.

2114 *Student Accounting Services.* Activities of acquiring and maintaining records of school attendance, location of home, family characteristics, and census data. Portions of these records become a part of the cumulative record which is sorted and stored for teacher and guidance information. Pertinent statistical reports are prepared under this function as well.

Usually used with program 000.

UPDATE

July 1990

UPDATE TO "INSTRUCTION" UNDER FUNCTION 1000 (P. 88)

1000 **Instruction.** Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities. It may also be provided through some other approved medium such as television, radio, telephone, and correspondence. Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. If proration of expenditures is not possible for department chairpersons who also teach, include department chairpersons who also teach in instruction. Full-time department chairpersons expenditures should be included only in 2490.

Used only with programs 100-700.

Code	Description
2119	*Other Attendance and Social Work Services.* Attendance and social work services other than those described above. Usually used with program 000.
2120	**Guidance Services.** Activities involving counseling with students and parents; consulting with other staff members on learning problems; evaluating the abilities of students; assisting students as they make their own educational and career plans and choices; assisting students in personal and social development; providing referral assistance; and working with other staff members in planning and conducting guidance programs for students.
2121	*Supervision of Guidance Services.* Activities associated with directing, managing and supervising guidance services. Usually used with program 000.
2122	*Counseling Services.* Activities concerned with the relationship between one or more counselors and one or more students as counselees, between students and students, and between counselors and other staff members. These activities are to help the student understand his or her educational, personal, and occupational strengths and limitations; relate his or her abilities, emotions, and aptitudes to educational and career opportunities; utilize his or her abilities in formulating realistic plans; and achieve satisfying personal and social development. Used with programs 000, 200.
2123	*Appraisal Services.* Activities that assess student characteristics, are used in administration, instruction, and guidance, and assist the student in assessing his or her purposes and progress in career and personality development. Used with programs 000, 200.
2124	*Information Services.* Activities for disseminating educational, occupational, and personal social information to help acquaint students with the curriculum and with educational and vocational opportunities and requirements. Such information might be provided directly to students through activities such as group or individual guidance, or it might be provided indirectly to students, through staff members or parents. Used with programs 000, 300.
2125	*Record Maintenance Services.* Activities for compiling, maintaining, and interpreting cumulative records of individual students, including systematic consideration of such factors as: Home and family background Physical and medical status Standardized test results Personal and social development School performance Usually used with program 000.
2126	*Placement Services.* Activities that help place students in appropriate situations while they are in school. These could be educational situations, part-time employment while

Function (continued)

Code	*Description*
	they are in school, and appropriate educational and occupational situations after they leave school. These activities also help ease the student's transition from one educational experience to another. The transition may require, for example, admissions counseling, referral services, assistance with records, and follow-up communications with employers. Used with programs 000, 200, 300.
2129	*Other Guidance Services.* Guidance services which cannot be classified above. Usually used with program 000.
2130	**Health Services**. Physical and mental health services which are not direct instruction. Included are activities that provide students with appropriate medical, dental, and nursing services.
2131	*Supervision of Health Services.* Activities associated with directing and managing health services. Usually used with program 000.
2132	*Medical Services.* Activities concerned with the physical and mental health of students, such as health appraisal, including screening for vision, communicable diseases, and hearing deficiencies; screening for psychiatric services, periodic health examinations; emergency injury and illness care; and communications with parents and medical officials. Used with programs 000, 200.
2133	*Dental Services.* Activities associated with dental screening, dental care, and orthodontic activities. Usually used with program 000.
2134	*Nursing Services.* Activities associated with nursing, such as health inspection, treatment of minor injuries, and referrals for other health services. Usually used with program 000.
2139	*Other Health Services.* Health services not classified above. Usually used with program 000.
2140	**Psychological Services**. Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the special needs of students as indicated by psychological tests and behavioral evaluation; and planning and managing a program of psychological services, including psychological counseling for students, staff, and parents.
2141	*Supervision of Psychological Services.* Directing, managing and supervising the activities associated with psychological services. Usually used with program 000.
2142	*Psychological Testing Services.* Activities concerned with administering psychological tests, standardized tests, and inventory assessments. These tests measure ability, aptitude,

Code	Description
	achievement, interests and personality. Activities also include the interpretation of these tests for students, school personnel, and parents. Used with programs 000, 200.
2143	*Psychological Counseling Services.* Activities that take place between a school psychologist or other qualified person as counselor and one or more students as counselees in which the students are helped to perceive, clarify, and solve problems of adjustment and interpersonal relationships. Used with programs 000, 200.
2144	*Psychotherapy Services.* Activities that provide a therapeutic relationship between a qualified mental health professional and one or more students, in which the students are helped to perceive, clarify, and solve emotional problems. Used with programs 000, 200.
2149	*Other Psychological Services.* Other activities associated with psychological services not classified above. Usually used with program 000.
2150	**Speech Pathology and Audiology Services.** Activities which identify, assess, and treat children with speech, hearing, and language impairments. Usually used with program 200.
2151	*Supervision of Speech Pathology and Audiology Services.* Activities associated with directing, managing and supervising speech pathology and audiology services.
2152	*Speech Pathology Services.* Activities that identify children with speech and language disorders; diagnose and appraise specific speech and language disorders; refer problems for medical or other professional attention necessary to treat speech and language disorders; provide required speech treatment services; and counsel and guide children, parents, and teachers, as appropriate.
2153	*Audiology Services.* Activities that identify children with hearing loss; determine the range, nature, and degree of hearing function; refer problems for medical or other professional attention appropriate to treat impaired hearing; treat language impairment; involve auditory training, speech reading (lip-reading), and speech conversation; create and administer programs of hearing conservation; and counsel guidance of children, parents, and teachers as appropriate.
2159	*Other Speech Pathology and Audiology Services.* Other activities associated with speech pathology and audiology services not classified above.
2190	**Other Support Services–Student.** Other support services to students not classified elsewhere in the 2100 series. Usually used with program 000.
2200	**Support Services–Instructional Staff.** Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students.

Function (continued)

Code	*Description*
2210	**Improvement of Instruction Services.** Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, techniques of instruction, child development and understanding, staff training, etc.
2211	*Supervision of Improvement of Instruction Services.* Activities associated with directing, managing and supervising the improvement of instruction services.
	Used only with programs 000, 100-300, 600, 700.
2212	*Instruction and Curriculum Development Services.* Activities that aid teachers in developing the curriculum, preparing and utilizing special curriculum materials, and understanding and appreciating the various techniques which stimulate and motivate students.
	Used only with programs 000, 100-300, 600, 700.
2213	*Instructional Staff Training Services.* Activities that contribute to the professional or occupational growth and competence of members of the instructional staff during the time of their service to the school system or school. Among these activities are workshops, demonstrations, school visits, courses for college credit, sabbatical leaves, and travel leaves.
	Used only with programs 000, 100-300, 600, 700.
2219	*Other Improvement of Instruction Services.* Activities for improving instruction other than those classified above.
	Used only with programs 000, 100-300, 600, 700.
2220	**Educational Media Services.** Activities concerned with the use of all teaching and learning resources, including hardware, and content materials. Educational media are defined as any devices, content materials, methods, or experiences used for teaching and learning purposes. These include printed and nonprinted sensory materials.
2221	*Supervision of Educational Media Services.* Activities concerned with directing, managing and supervising educational media services.
	Usually used with program 000.
2222	*School Library Services.* Activities such as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning the use of the library by students, teachers and other members of the instructional staff; and guiding individuals in their use of library books and materials, whether maintained separately or as a part of an instructional materials center. Textbooks will not be charged to this function but rather to the instruction function.
	Used only with programs 000, 100-300, 600, 700.
2223	*Audiovisual Services.* Activities such as selecting, preparing, caring for, and making available to members of the instructional staff the equipment, films, filmstrips, transparencies, tapes, TV programs, and similar materials, whether maintained separately or as part of an instructional materials center. Included are activities in the audiovisual center, TV studio, and related work-study areas, and the services provided by audiovisual personnel.
	Usually used with programs 000, 100-700.

Code	*Description*
2224	*Educational Television Services.* Activities concerned with planning, programming, writing, and presenting educational programs or segments of programs by closed circuit or broadcast television. Usually used with programs 000, 100-700.
2225	*Computer-Assisted Instruction Services.* Activities concerned with planning, programming, writing, and presenting educational projects which have been especially programmed for a computer to be used as the principal medium of instruction. Usually used with programs 000, 100-700.
2229	*Other Educational Media Services.* Educational media services other than those classified above. Usually used with programs 000, 100-700.
2290	**Other Support Services–Instructional Staff.** Services supporting the instructional staff not properly classified elsewhere in the 2200 series. Usually used with program 000.
2300	**Support Services–General Administration.** Activities concerned with establishing and administering policy for operating the LEA. Do not include the Chief Business Official here, but in Support Services- Business [Function 2500]. **
2310	**Board of Education Services.** Activities of the elected body which has been created according to State law and vested with responsibilities for educational activities in a given administrative unit.
2311	*Supervision of Board of Education Services.* Activities concerned with directing and managing the general operation of the Board of Education. These include the activities of the members of the Board of Education, but does not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of the school district meeting. Legal activities in interpretation of the laws and statutes and general liability situations are charged here, as are the activities of external auditors. Used only with program 000.
2312	*Board Secretary/Clerk Services.* The activities required to perform the duties of the Secretary or Clerk of the Board of Education. Used only with program 000.
2313	*Board Treasurer Services.* The activities required to perform the duties of Treasurer of the Board of Education. Used only with program 000.
2314	*Election Services.* Services rendered in connection with any school system election, including elections of officers and bond elections. Used only with program 000.
2315	*Tax Assessment and Collection Services.* Services rendered in connection with tax assessment and collection.

Function (continued)

Code	*Description*
	Used only with program 000.
2316	*Staff Relations and Negotiations Services.* Activities concerned with staff relations systemwide and the responsibilities for contractual negotiations with both instructional and non-instructional personnel. Used only with program 000.
2319	*Other Board of Education Services.* Board of Education services which cannot be classified under the preceding areas of responsibility. Used only with program 000.
2320	**Executive Administration Services**. Activities associated with the overall general administration of or executive responsibility for the entire LEA.
2321	*Office of the Superintendent Services.* Activities performed by the superintendent and such assistants as deputy, associate, and assistant superintendents in generally directing and managing all affairs of the LEA. These include all personnel and materials in the office of the chief executive officer. Activities of the offices of the deputy superintendents should be charged here, unless the activities can be placed properly into a service area. In this case, they would be charged to service area direction in that service area. Used only with program 000.
2322	*Community Relations Services.* Activities and programs developed and operated systemwide for bettering school/community relations. Used only with program 000.
2323	*State and Federal Relations Services.* Activities associated with developing and maintaining good relationships with State and Federal officials. The activities associated with grant procurement are included. Used only with program 000.
2329	*Other Executive Administration Services.* Other general administrative services which cannot be recorded under the preceding functions. Used only with program 000.
	**
2400	**Support Services–School Administration**. Activities concerned with overall administrative responsibility for a school.
2410	**Office of the Principal Services**. Activities concerned with directing and managing the operation of a particular school. They include the activities performed by the principal, assistant principals, and other assistants while they supervise all operations of the school, evaluate the

Code		*Description*
		staff members of the school, assign duties to staff members, supervise and maintain the records of the school, and coordinate school instructional activities with those of the LEA. These activities also include the work of clerical staff in support of the teaching and administrative duties. Usually used with program 000.
2490	**	**Other Support Services—School Administration.** Other school administration services. This function includes graduation expenses and full-time department chairpersons. Usually used with program 000.
2500		**Support Services–Business.** Activities concerned with paying, transporting, exchanging, and maintaining goods and services for the LEA. Included are the fiscal and internal services necessary for operating the LEA.
	**	Include the Chief Business Official and the activities of the Chief Business Official here.
2510		**Fiscal Services.** Activities concerned with the fiscal operations of the LEA. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing and managing funds.
2511		*Supervising Fiscal Services.* The activities of directing, managing and supervising the fiscal services area. They include the activities of the assistant superintendent, director, or school business official who directs and manages fiscal activities. Usually used with program 000.
2512		*Budgeting Services.* Activities concerned with supervising budget planning, formulation, control and analysis. Usually used with program 000.
2513		*Receiving and Disbursing Funds Services.* Activities concerned with taking in money and paying it out. They include the current audit of receipts; the preaudit of requisitions or purchase orders to determine whether the amounts are within the budgetary allowances and to determine that such disbursements are lawful expenditures of the school or an LEA; and the management of school funds. Usually used with program 000.
2514		*Payroll Services.* Activities concerned with periodically paying individuals entitled to remuneration for services rendered. Payments are also made for such payroll-associated costs as Federal income tax withholding, retirement, and social security. Usually used with program 000.
2515		*Financial Accounting Services.* Activities concerned with maintaining records of the financial operations and transactions of the school system. They include such activities as accounting and interpreting financial transactions and account records. Usually used with program 000.
2516		*Internal Auditing Services.* Activities concerned with verifying the account records, which includes evaluating the adequacy of the internal control system, verifying and safeguarding assets, reviewing the reliability of the accounting and reporting systems, and ascertaining compliance with established policies and procedures.

Function (continued)

Code	*Description*
	Usually used with program 000.
2517	*Property Accounting Services.* Activities concerned with preparing and maintaining current inventory records of land, buildings, and equipment. These records are used in equipment control and facilities planning. Usually used with program 000.
2519	*Other Fiscal Services.* Fiscal services which cannot be classified under the preceding functions. Usually used with program 000.
2520	**Purchasing Services**. Activities concerned with purchasing supplies, furniture, equipment, and materials used in schools or school system operations. Usually used with program 000.
2530 *	**Warehousing and Distributing Services**. The activities of receiving, storing, and distributing supplies, furniture, equipment, materials, and mail. They include picking up and transporting cash from school facilities to the central administration office or bank for control, deposit, or both. Used with program 000, or may be established as an internal service activity.
2540	**Printing, Publishing, and Duplicating Services**. The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities here also include centralized services for duplicating school materials and instruments such as school bulletins, newsletters, and notices. Used with program 000, or may be established as internal service activity.
2590	**Other Support Services–Business**. Other support services to business not classified elsewhere in the 2500 series. Usually used with program 000.
2600	**Operation and Maintenance of Plant Services**. Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools.
2610	**Supervision of Operation and Maintenance of Plant Services**. The activities involved in directing, managing and supervising the operation and maintenance of school plant facilities. Usually used with program 000.
2620	**Operating Buildings Services**. Activities concerned with keeping the physical plant clean and ready for daily use. They include operating the heating, lighting, and ventilating systems, and repairing and replacing facilities and equipment. Also included are the costs of building rental and property insurance. Usually used with program 000.

UPDATE

July 1990

UPDATE OF "WAREHOUSING AND DISTRIBUTING SERVICES" UNDER FUNCTION 2530 (P. 96)

2535 **Warehouse Inventory Adjustment.** Include adjustments to inventories reported on a consumption basis, in object 610 (general supplies), in object 630 (food) or 730 (equipment), or for lost or stolen equipment.

Code	Description
2630	**Care and Upkeep of Grounds Services**. Activities involved in maintaining and improving the land (but not the buildings). These include snow removal, landscaping, grounds maintenance and the like. Usually used with program 000.
2640	**Care and Upkeep of Equipment Services**. Activities involved in maintaining equipment owned or used by the LEA. They include such activities as servicing and repairing furniture, machines, and movable equipment. Usually used with program 000.
2650	**Vehicle Operation and Maintenance Services (Other Than Student Transportation Vehicles).** Activities involved in maintaining general purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles, replacing vehicle parts, cleaning, painting, greasing, fueling, and inspecting vehicles for safety, i.e., preventive maintenance. Usually used with program 000.
2660	**Security Services**. Activities concerned with maintaining order and safety in school buildings, on the grounds and in the vicinity of schools at all times. Included are police activities for school functions, traffic control on grounds and in the vicinity of schools, building alarm systems and hall monitoring services. Usually used with program 000.
2690	**Other Operation and Maintenance of Plant Services**. Operations and maintenance of plant services which cannot be classified elsewhere in the 2600 series. Usually used with program 000.
2700	**Student Transportation Services**. Activities concerned with conveying students to and from school, as provided by State and Federal law. This includes trips between home and school, and trips to school activities.
2710	**Supervision of Student Transportation Services**. Activities pertaining to directing and managing student transportation services. Usually used with program 000.
2720	**Vehicle Operation Services**. Activities involved in operating vehicles for student transportation, from the time the vehicles leave the point of storage until they return to the point of storage. These include driving buses or other student transportation vehicles. Used with programs 000-400.
2730	**Monitoring Services**. Activities concerned with supervising students in the process of being transported between home and school, and between school and school activities. Such supervision can occur while students are in transit, while they are being loaded and unloaded, and in directing traffic at the loading stations. Usually used with program 000.

Function (continued)

Code	*Description*
2740	**Vehicle Servicing and Maintenance** Services. Activities involved in maintaining student transportation vehicles. It includes repairing vehicle parts, replacing vehicle parts, cleaning, painting, fueling, and inspecting vehicles for safety. Used with programs 000-400.
2790	**Other Student Transportation Services**. Student transportation services which cannot be classified elsewhere in the 2700 series. Usually used with program 000.
2800	**Support Services–Central**. Activities, other than general administration, which support each of the other instructional and supporting services programs. These activities include planning, research, development, evaluation, information, staff, and data processing services.
2810	**Planning, Research, Development, and Evaluation Services**. Activities associated with conducting and managing programs of planning, research development, and evaluation for a school system on a system-wide basis. Planning Services include activities concerned with selecting or identifying the overall, long-range goals and priorities of the organization or program. They also involve formulating various courses of action needed to achieve these goals. This is done by identifying needs and relative costs and benefits of each course of action. Research Services include activities concerned with the systematic study and investigation of the various aspects of education, undertaken to establish facts and principles. Development Services include activities in the deliberate evolving process of improving educational programs–such activities as using the products of research. Evaluation Services include activities concerned with ascertaining or judging the value or amount of an action or an outcome. This is done through careful appraisal of previously specified data in light of the particular situation and the goals previously established. Usually used with program 000.
2820	**Information Services**. Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to students, staff, managers, and the general public through direct mailing, the various news media, or personal contact.
2821	*Supervision of Information Services.* The activities of directing, managing and supervising information services. Usually used with program 000.
2822	*Internal Information Services.* Activities concerned with writing, editing, and providing administrative information to students and staff. Usually used with program 000.
2823	*Public Information Services.* Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to the public through various news media or personal contact.

Code	Description
	Usually used with program 000.
2824	*Management Information Services.* Activities concerned with writing, editing, and other preparation necessary to disseminate to management (1) the information needed about the operation of the LEA and (2) information about the community, State, and nation to make logical decisions. Usually used with program 000.
2829	*Other Information Services.* Activities concerned with information services not classified above. Usually used with program 000.
2830	**Staff Services.** Activities concerned with maintaining an efficient staff for the school system. It includes such activities as recruiting and placement, staff transfers, inservice training, health services, and staff accounting.
2831	*Supervision of Staff Services.* The activities of directing, managing and supervising staff services. Usually used with program 000.
2832	*Recruitment and Placement Services.* Activities concerned with employing and assigning personnel for the LEA. Usually used with program 000.
2833	*Staff Accounting Services.* Services rendered in connection with the systematic recording and summarizing of information relating to staff members employed by the LEA. Usually used with program 000.
2834	*Inservice Training Services (for Non-Instructional Staff).* The activities developed by the LEA for training of non-instructional personnel in all classifications. Usually used with program 000.
2835	*Health Services.* Activities concerned with medical, dental, and nursing services provided for school district employees. Included are physical examinations, referrals, and emergency care. Usually used with program 000.
2839	*Other Staff Services.* Staff services which cannot be classified under the preceding functions.
2840	**Data Processing Services.** Activities concerned with preparing data for storage, storing data, and retrieving them for reproduction as information for management and reporting. Used with program 000, or may be established as an Internal Service center, or may charge specific jobs to programs.
2841	*Supervising Data Processing Services.* Activities concerned with directing, managing and supervising data processing services.

Function (continued)

Code	*Description*
2842	*Systems Analysis Services.* Activities concerned with searching for and evaluating alternatives for achieving defined objectives, based on judgment and, wherever possible, on quantitative methods. Where applicable, these activities pertain to the development of data processing procedures or application to electronic data processing equipment.
2843	*Programming Services.* Activities concerned with the preparation of a logical sequence of operations to be performed, either manually or electronically, in solving problems or processing data. These activities also involve preparing coded instructions and data for such sequences.
2844	*Operations Services.* Activities concerned with scheduling, maintaining, and producing data. These activities include operating business machines, data preparation devices, and data processing machines.
2849	*Other Data Processing Services.* Activities concerned with data processing not described above.
2900	**Other Support Services.** All other support services not classified elsewhere in the 2000 series.
	Usually used with program 000.
3000	**Operation of Non-Instructional Services.** Activities concerned with providing non-instructional services to students, staff or the community.
3100	**Food Services Operations.** Activities concerned with providing food to students and staff in a school or LEA. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.
	Used with programs 410, 500, 800 and 910.
3200	**Enterprise Operations.** Activities that are financed and operated in a manner similar to private business enterprises–where the stated intent is that the costs are financed or recovered primarily through user charges. Food Services should not be charged here but rather to function 3100. One example could be the LEA bookstore.
	Used only with program 990.
3300	**Community Services Operations.** Activities concerned with providing community services to students, staff or other community participants. Examples of this function would be the operation of a community swimming pool, a recreation program for the elderly, a child care center for working mothers, etc.
	Used only with program 800.
4000	**Facilities Acquisition and Construction Services.** Activities concerned with acquiring land and buildings; remodeling buildings; constructing buildings and additions to buildings; initially installing or extending service systems and other built-in equipment; and improving sites.
	Used only with program 000.
4100	**Site Acquisition Services.** Activities concerned with initially acquiring and improving new sites.
4200	**Site Improvement Services.** Activities concerned with improving sites, and with maintaining existing site improvements.

Code	*Description*
4300	**Architecture and Engineering Services.** The activities of architects and engineers related to acquiring and improving sites and improving buildings. Charges are made to this function only for those preliminary activities which may or may not result in additions to the LEA's property. Otherwise, charge these services to 4100, 4200, 4500 or 4600, as appropriate.
4400	**Educational Specifications Development Services.** Activities concerned with preparing and interpreting descriptions of specific space requirements for the various learning experiences of students to be accommodated in a building. These specifications are interpreted to the architects and engineers in the early stages of blueprint development.
4500	**Building Acquisition and Construction Services.** Activities concerned with buying or constructing buildings.
4600	**Building Improvements Services.** Activities concerned with building additions and with installing or extending service systems and other built-in equipment.
4900	**Other Facilities Acquisition and Construction Services.** Facilities acquisition and construction activities which cannot be classified above.
5000	**Other Uses.** A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified under *Other Outlays.* These include debt service payments (principal and interest) and certain transfers of monies from one fund to another. These accounts are not used with the proprietary funds. Used only with program 000.
5100	**Debt Service.** Servicing the debt of the LEA, including payments of both principal and interest. Normally, only long-term debt service (obligations exceeding one year) is recorded here. Interest on current loans (repayable within one year of receiving the obligation) is charged to function 2513. The receipt and payment of principal on those loans is handled as an adjustment to the balance sheet account 451.
5200 *	**Fund Transfers.** Transactions which withdraw money from one fund and place it in another without recourse. Fund transfers budgeted to another functional activity, such as food service or transportation, are coded to the appropriate function and the object code 930. Unless State law prohibits, revenues should be allocated to the appropriate funds when received, rather than accepted in the general fund and later transferred. Interfund loans are not recorded here, but are handled through the balance sheet accounts 131 and 401 in the funds affected.

Object

This dimension is used to describe the service or commodity obtained as the result of a specific expenditure. There are nine major object categories, each of which is further subdivided. Following are definitions of the object classes and selected subobject categories:

Code	*Description*
100	**Personal Services–Salaries.** Amounts paid to both permanent and temporary LEA employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the LEA's. The third position in this group of

UPDATE

JULY 1990

ADDITION OF EXPENDITURES DESCRIPTION TO 5200, "FUND TRANSFERS" (P. 101)

5200 **Fund Transfers**

Self insurance payments may be treated as interfund operating transfers. When expenditures are made for replacement of damaged or stolen equipment, the expenditure should appear as a 700 object under the appropriate function.

For those States that have an "indirect costs" item in their accounting manual, the entry should be treated as a fund transfer, and as an actual expenditure in the appropriate function, typically 2300, "General Administration".

Payments into a debt service fund for the eventual retirement of zero coupon bonds are to be treated as a fund transfer, as in the case of payments made to a sinking fund. Payments to escrow agents are recognized under Function 5100, object 940.

Object (continued)

Code	*Description*
	objects has been left unused (i.e. "0") so that a job classification code can be inserted by the LEA if desired.
	Used with all functions except 5000.
110	**Salaries of Regular Employees**. Full-time, part-time, and prorated portions of the costs for work performed by permanent employees of the LEA.
120	**Salaries of Temporary Employees**. Full-time, part-time, and prorated portions of the costs for work performed by employees of the LEA who are hired on a temporary or substitute basis.
130	**Salaries for Overtime**. Amounts paid to employees of the LEA in either temporary or permanent positions for work performed in addition to the normal work period for which the employee is compensated under regular salaries and temporary salaries above. The terms of such payment for overtime is a matter of State and local regulations and interpretation.
140	**Salaries for Sabbatical Leave**. Amounts paid by the LEA to employees on sabbatical leave.
200	**Personal Services–Employee Benefits.** Amounts paid by the LEA in behalf of employees, these amounts are not included in the gross salary, but are in addition to that amount. Such payments are fringe benefit payments and, while not paid directly to employees, nevertheless are part of the cost of personal services. The third position in this group of objects has been left unused (i.e., "0") so that a job classification code can be inserted by the LEA if desired.
	Used with all functions except 5000.
210	**Group Insurance**. Employer's share of any insurance plan.
220	**Social Security Contributions**. Employer's share of social security paid by the LEA.
230	**Retirement Contributions**. Employer's share of any State or local employee retirement system paid by the LEA, including the amount paid for employees assigned to Federal programs.
240	**Tuition Reimbursement**. Amounts reimbursed by the LEA to any employee qualifying for tuition reimbursement based upon LEA policy.
250	**Unemployment Compensation**. Amounts paid by the LEA to provide unemployment compensation for its employees. These charges may be distributed to functions in accordance with the salary budget or may be charged to function 2310.
260 *	**Workmen's Compensation**. Amounts paid by the LEA to provide workmen's compensation insurance for its employees. These charges may be distributed to functions in accordance with the salary budget or may be charged to function 2310.
290	**Other Employee Benefits**. Employee benefits other than those classified above. LEA's may establish sub-codes locally for various accrued amounts, such as "unused sick leave." Such amounts may be distributed to the functions according to the employee's assignment or charged to function 2310.
300	**Purchased Professional and Technical Services.** Services which by their nature can be performed only by persons or firms with specialized skills and knowledge. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, accountants, etc. It is recommended that a separate account be established

UPDATE

JULY 1990

ADDITION TO "PERSONAL SERVICES-EMPLOYEE BENEFITS" (P. 102)

270 **Health Benefits**. Amounts paid by the LEA to provide health benefits for its current employees or employees now reitred for whom benefits are paid.

Code	*Description*
	for each type of service provided to the LEA. In general, LEA's should adhere to the classification of staff activities in Handbook IVR[1] when assigning accounts within the sub-objects in this group.
310	**Official/Administrative Services.** Services in support of the various policy-making and managerial activities of the LEA. Included would be management consulting activities oriented to general governance or business and financial management of the LEA; school management support activities; election and tax assessing and collecting services.
	Usually used with functions 2300, 2400.
320	**Professional–Educational Services.** Services supporting the instructional program and its administration. Included would be curriculum improvement services, counseling and guidance services, library and media support and contracted instructional services.
	Usually used with functions 1000, 2100, 2200.
330	**Other Professional Services.** Professional services other than educational supporting the operation of the LEA. Included are medical doctors, lawyers, architects, auditors, accountants, therapists, audiologists, dieticians, editors, negotiations specialists, systems analysts, planners, and the like. See Handbook IVR[2] for further detail.
	Usually used with function 2000.
340	**Technical Services.** Services to the LEA which are not regarded as professional but require basic scientific knowledge, manual skills, or both. Included are data processing services, purchasing and warehousing services, graphic arts and the like.
	Usually used with functions 1000, 2000.
400	**Purchased Property Services.** Services purchased to operate, repair, maintain, and rent property owned or used by the LEA. These services are performed by persons other than LEA employees. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided.
410	**Utility Services.** Expenditures for utility services other than energy services supplied by public or private organizations. Water and sewerage are included here. Telephone and telegraph are not included here but are classified under object 530.
	Used only with function 2600.
411	*Water/Sewage.* Expenditures for water/sewage utility services from a private or public utility company.
420	**Cleaning Services.** Services purchased to clean buildings (apart from services provided by LEA employees).
	Used only with function 2600.
421	*Disposal Services.* Expenditures for garbage pickup and handling not provided by LEA personnel.

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[1] Roberts, Charles T., *Staff Accounting: Classifications and Standard Terminology for Local and State School Systems,* Washington, D.C.: U.S. Government Printing Office, 1974. U.S. Department of Health, Education, and Welfare; Office of Education, State Educational Records and Reports Series, Handbook IV, Revised, Bulletin 74-314.

[2] Ibid.

Object (continued)

Code	*Description*
422	*Snow Plowing Services.* Expenditures for snow removal not provided by LEA personnel.
423	*Custodial Services.* Expenditures to an outside contractor for custodial services.
424	*Lawn Care.* Expenditures for lawn and grounds upkeep, minor landscaping, nursery services and the like not provided by LEA personnel.
430	**Repairs and Maintenance Services.** Expenditures for repairs and maintenance services not provided directly by LEA personnel. This includes contracts and agreements covering the upkeep of buildings and equipment. Costs for renovating and remodeling are not included here but are classified under object 450.
440	**Rentals.** Costs for renting or leasing land, buildings, equipment and vehicles.
441	*Renting Land and Buildings.* Expenditures for leasing or renting land and buildings for both temporary and long-range use by the LEA. Used with function 2620 and appropriate program code.
442	*Rental of Equipment and Vehicles.* Expenditures for leasing or renting equipment or vehicles for both temporary and long-range use by the LEA. This includes bus and other vehicle rental when operated by a local LEA, lease-purchase arrangements, and similar rental agreements. Usually used with function 1000 or 2000 and appropriate program code.
450	**Construction Services.** Includes amounts for constructing, renovating and remodeling paid to contractors. Used only with functions 4500, 4600.
490	**Other Purchased Property Services.** Purchased property services which are not classified above. Costs for telephone and telegraph are not included here but are included in object 530. Usually used with function 2600.
500	**Other Purchased Services.** Amounts paid for services rendered by organizations or personnel not on the payroll of the LEA (separate from Professional and Technical Services or Property Services). While a product may or may not result from the transaction, the primary reason for the purchase is the service provided.
510	**Student Transportation Services.** Expenditures for transporting children to and from school and other activities. Used only with function 2700.
511	*Student Transportation Purchased from Another LEA Within the State.* Amounts paid to other LEA's within the State for transporting children to and from school and school-related events. These include payments to individuals who transport themselves or their own children or for reimbursement of transportation expenses on public carriers. Expenditures for the rental of buses which are operated by personnel on the LEA payroll are recorded not here but under object 442. Used only with function 2700.

Code	*Description*
512	*Student Transportation Purchased from Another LEA Outside the State.* Payments to other LEA's outside the State for transporting children to and from school and school-related events. Used only with function 2700.
519	*Student Transportation Purchased from Other Sources.* Payments to persons or agencies other than LEA's for transporting children to and from school and school-related events. Used only with function 2700.
520	**Insurance (Other Than Employee Benefits).** Expenditures for all types of insurance coverage, including property, liability, and fidelity. Insurance for group health is not charged here but is recorded under object 200. Used with function 2310 or 2620.
530	**Communications.** Services provided by persons or businesses to assist in transmitting and receiving messages or information. This category includes telephone and telegraph services as well as postage machine rental and postage. Usually used with function 2320 or 2410, but may be spread among functions.
540	**Advertising.** Expenditures for announcements in professional publications, newspapers or broadcasts over radio and television. These expenditures include advertising for such purposes as personnel recruitment, legal ads, new and used equipment, and sale of property. Costs for professional advertising or public relations services are not recorded here but are charged to object 330. Usually used with functions 2300, 2500 or 2800.
550	**Printing and Binding.** Expenditures for job printing and binding, usually according to specifications of the LEA. This includes designing and printing forms and posters as well as printing and binding LEA publications. Preprinted standard forms are not charged here but are recorded under object 610. Usually used with function 2540, but may be assigned to other functions.
560	**Tuition.** Expenditures to reimburse other educational agencies for instructional services to students residing in the legal boundaries described for the paying LEA. Used only with function 1000 and appropriate program.
561	*Tuition to Other LEA's Within the State.* Tuition paid to other LEA's within the State.
562	*Tuition to Other LEA's Outside the State.* Tuition paid to other LEA's outside the State.
563	*Tuition to Private Sources.* Tuition paid to private schools.
569 *	*Tuition–Other.* Tuition paid to the State and other governmental organizations as reimbursement for providing specialized instructional services to students residing within the boundaries of the paying LEA. So-called "reverse State aid" payments, which arise out of education finance equalization efforts, are not coded here. Rather, these should be established on the balance sheet at the

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July 1990

ADDITION OF NEW TUITION SUBOBJECT UNDER 560 "TUITION." (P. 105)

564	*Tuition to Intermediate Education Agencies Within the State.*
565	*Tuition to Intermediate Education Agencies Outside the State.*

Object (continued)

Code	*Description*
	time taxes are levied as *Due To State Government.* (These amounts are *not* shown as revenues to the LEA).
570	**Food Service Management**. Expenditures for the operation of a local food service facility by other than employees of the LEA. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenditures by the LEA for food, supplies, labor and equipment would be charged to the appropriate object codes. Used only with function 3100.
580	**Travel**. Expenditures for transportation, meals, hotel, and other expenses associated with staff travel for the LEA. Payments for per diem in lieu of reimbursements for subsistence (room and board) also are charged here. Used with all functions except 5000.
590	**Miscellaneous Purchased Services**. Purchased services other than those described above. Any interdistrict payments other than tuition should be classified here.
591	*Services Purchased Locally.* Any expenditures for purchased services not otherwise classified in the 300, 400 or 500 series of objects. Used with all functions except 5000.
592	*Services Purchased from Another LEA Within the State.* Payments to another LEA within the State for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing and guidance. Where a question arises as to whether to code such payments to the 300 series of objects or to this code, 592 should be used so that *all* interdistrict payments can be eliminated when consolidating reports from multiple LEA's at State and Federal levels. Used only with function 2000.
593	*Services Purchased from Another LEA Outside the State.* Payments to another LEA outside the State for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing and guidance. Where a question arises as to whether to code such payments to the 300 series of objects or to this code, 593 should be used so that all interdistrict payments can be eliminated when consolidating reports at the Federal level. Used only with function 2000.
600	**Supplies**. Amounts paid for items that are consumed, worn out, or deteriorated through use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances. Refer to appendix D for the criteria for distinguishing between a supply and an equipment item. No specific category for materials has been provided. For clarification of this point, the reader is referred to Handbook III, Revised, p. 78.[3]

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[3] Seibert, Ivan N., *Property Accounting, A Handbook of Standard Terminology and a Guide for Classifying Information About Education Property,* Washington, D.C.: U.S. Government Printing Office, 1977. U.S. Department of Health, Education and Welfare; National Center for Education Statistics, State Educational Records and Reports Series, Handbook III, Revised.

Code	*Description*
610	**General Supplies**. Expenditures for all supplies (other than those listed below) for the operation of an LEA, including freight and cartage.
	A more thorough classification of supply expenditures is achieved by identifying the object with the function–for example, audiovisual supplies or classroom teaching supplies.
	Used with all functions except 5000.
620	**Energy**. Expenditures for energy, including gas, oil, coal, gasoline, and services received from public or private utility companies.
621	*Natural Gas.* Expenditures for gas utility services from a private or public utility company.
	Used with functions 1000, 2620 and 3100.
622	*Electricity.* Expenditures for electric utility services from a private or public utility company.
	Usually used with functions 1000, 2620.
623	*Bottled Gas.* Expenditures for bottled gas, such as propane gas received in tanks.
	Used with functions 1000, 2620, 3100.
624	*Oil.* Expenditures for bulk oil normally used for heating.
	Used only with function 2620.
625	*Coal.* Expenditures for raw coal normally used for heating.
	Used only with function 2620.
626	*Gasoline.* Expenditures for gasoline purchased in bulk or periodically from a gasoline service station.
	Usually used with functions 2630, 2720.
629	*Other.* Expenditures for energy that cannot be classified in one of the foregoing categories.
630	**Food**. Expenditures for food used in the school food service program. Food used in instructional programs is charged under object 610.
	Used only with function 3100.
640	**Books and Periodicals**. Expenditures for books, textbooks and periodicals prescribed and available for general use, including reference books. This category includes the cost of workbooks, textbook binding or repairs, as well as textbooks which are purchased to be resold or rented. Also recorded here are costs of binding or other repairs to school library books.
	Used with all functions except 5000.
700	**Property**. Expenditures for acquiring fixed assets, including land or existing buildings; improvements of grounds; initial equipment; additional equipment; and replacement of equipment.
710	**Land and Improvements**. Expenditures for the purchase of land and the improvements thereon. Purchases of air rights, mineral rights and the like are included here. Also included are special

Object (continued)

Code	*Description*
	assessments against the LEA for capital improvements such as streets, curbs and drains. Not included here, but generally charged to objects 450 or 340 as appropriate, are expenditures for improving sites and adjacent ways after acquisition by the LEA. Used with governmental funds only. Used only with functions 4100, 4200.
720	**Buildings**. Expenditures for acquiring existing buildings. Included are expenditures for installment or lease payments (except interest) which have a terminal date and result in the acquisition of buildings, except payments to public schoolhousing authorities or similar agencies. Expenditures for the contracted construction of buildings, for major permanent structural alterations, and for the initial or additional installation of heating and ventilating systems, fire protection systems, and other service systems in existing buildings are recorded under object 450. Buildings built and alterations performed by the LEA's own staff are charged to objects 100, 200, 610, and 730, as appropriate. Used with governmental funds only. Used only with function 4500.
730	**Equipment**. Expenditures for the initial, additional, and replacement items of equipment, such as machinery, furniture and fixtures and vehicles. Used with governmental funds only. No specific category for Materials has been provided. For clarification of this point, the reader is referred to *Handbook III, Revised*, p. 78.[4]
731	*Machinery*. Expenditures for equipment usually composed of a complex combination of parts (excluding vehicles). Examples are lathes, drill press, printing press, etc. Usually used with functions 1000, 2600.
732	*Vehicles*. Expenditures for equipment used to transport persons or objects. Examples are automobiles, trucks, buses, station wagons, and vans. Usually used with functions 2630, 2700.
733	*Furniture and Fixtures*. Expenditures for equipment used for sitting; as a support for writing and work activities; and as storage space for material items. Used with all functions, except 5000.
739	*Other Equipment*. Expenditures for all other equipment not classified elsewhere in the 730 object series.
740	**Depreciation**. The portion of the cost of a fixed asset which is charged as an expense during a particular period. In accounting for depreciation, the cost of a fixed asset, less any salvage value, is apportioned over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the cost of the asset is ultimately charged off as an expense. In accordance with GAAP, using depreciation is required in proprietary funds only. Computing depreciation is optional in the general fixed assets group of accounts, but it would not be recorded there as an expense.

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[4] **Seibert, Ivan N., *Property Accounting, A Handbook of Standard Terminology and a Guide for Classifying Information About Education Property*, Washington, D.C.: U.S. Government Printing Office, 1977. U.S. Department of Health, Education and Welfare; National Center for Education Statistics, State Educational Records and Reports Series, Handbook III, Revised.**

Code	*Description*
800	**Other Objects**. Amounts paid for goods and services not otherwise classified above.
810	**Dues and Fees**. Expenditures or assessments for membership in professional or other organizations or payments to a paying agent for services rendered. Used with functions 1000, 2000.
820	**Judgments Against the LEA**. Expenditures from current funds for all judgments (except as indicated below) against the LEA that are not covered by liability insurance, but are of a type that might have been covered by insurance. Only amounts paid as the result of court decisions are recorded here. Judgments against the LEA resulting from failure to pay bills or debt service are recorded under the appropriate expenditure accounts as though the bills or debt service had been paid when due. Used only with function 2310.
830	**Interest**. Expenditures for interest on bonds or notes. Used with functions 2513, 5100.
840	**Contingency**. This account is provided for budgeting appropriations. Expenditures to be paid from the contingency should be charged to the appropriate function and object classification. Used with function 2310, or may be used with all functions except 5000.
890	**Miscellaneous Expenditures**. Amounts paid for goods or services not properly classified in one of the objects included above. Refunds of prior year's expenditures are *charged* to this account. ** Used with all functions, except 5000.
900	**Other Uses of Funds.** This series of codes is used to classify transactions which are not properly recorded as expenditures to the LEA but require budgetary or accounting control. These include redemption of principal and interest on long-term debt, housing authority obligations, and fund transfers. Used with governmental funds only.
910	**Redemption of Principal**. Outlays from current funds to retire serial bonds and long-term loans. Used only with function 5100.
920	**Housing Authority Obligations**. Outlays from current funds to satisfy housing authority obligations of the LEA. A public school housing authority is a public or quasi-public corporation having power to issue authority bonds for public school purposes, construct public school buildings, lease public school buildings to local public school administrative units, or transfer title to such units. All expenditures of this nature are classified in this category. Used only with function 5100.
930	**Fund Transfers**. Includes all transactions conveying money from one fund to another without recourse. Generally, this takes the form of a transfer from the General Fund to some other fund. Used with all functions.
940	**Payments to escrow agents.** **

Project/Reporting

The project/reporting code (formerly "Source of funds") permits LEA's to accumulate expenditures to meet a variety of specialized reporting requirements at local, State and Federal levels. It is envisioned as a three-digit code with the format 00X. The first two digits identify the particular funding source, authority, or expenditure purpose for which a special record or report is required. The third digit is available to identify particular projects and the fiscal year of the appropriation within that funding source.

Code	*Description*
010-190	**Local Projects**. Expenditures that require specialized reporting and are funded from local sources. One example might be a project funded by the local service club to provide intramural activities for students in the community.
200-390	**State Projects**. Expenditures that require specialized reporting for categorically funded State programs.
400-990	**Federal Projects**. Expenditures that require specialized reporting to the Federal Government directly or through the State. Some examples might include: ESEA Title I–Compensatory (Part A) ESEA Title I–Compensatory (Part B) ESEA Title I–Handicapped ESEA Title I–Migrant ESEA Title IV–Part B–Learning Resources ESEA Title IV–Part C–Innovative ESEA Title VI–Handicapped ESEA Title VII–Bilingual Vocational Education Child Nutrition Program Handicapped Programs
000	**Non-Categorical**. Expenditures that do not require specialized reporting.

Level of Instruction

This dimension permits expenditures to be segregated by instructional level. Many SEA's desire to differentiate elementary, secondary, and postsecondary costs so they can calculate interdistrict tuition rate, compute general State aid, or both.

In the following definitions, grade span can be changed to age span when structuring a nongraded school or LEA.

Code	*Description*
10	**Elementary**. A school organization classified as elementary by State and local practice and composed of any span of grades from preprimary through eighth grade.
11	*Pre-Kindergarten*. A school organization composed entirely of any span of ages below kindergarten. This category is normally used for students identified as needing special services.
12	*Kindergarten*. A school organization for children for the year immediately preceding the first grade.
19	*Other Elementary*. A school organization composed of any span of grades not above grade eight except pre-kindergarten and kindergarten.
20	**Middle**. A school organization composed of at least three grades, usually beginning with grades five or six or their equivalent. Most middle school organizations presume a four-year high school will follow the middle school.
30	**Secondary**. A school organization comprising any span of grades beginning with the next grade following an elementary or middle school and ending with or below grade 12.
31	*Junior High*. A secondary school organization intermediate between the elementary and senior high school, usually including grades 7, 8, and 9 (in a 6-3-3 plan) or grades 7 and 8 in a (6-2-4 plan).
32	*Senior High*. A school organization offering the final years of high school work necessary for graduation and invariably preceded by a junior high.
39	*Other Secondary*. For example, a grade 7-12 high school.
40	**Postsecondary**. A school organization for adults and out-of-school youth (16 years of age or older who are not regularly enrolled in school) who have either completed, interrupted or have not begun their formal education, or for students attending an institution of higher education.
41	*Adult/Continuing*. A school organization for adults and out-of-school youth (16

Code	*Description*
	years of age and older who are not regularly enrolled in school) who have either completed, interrupted, or have not begun their formal education and are pursuing skills or knowledge in other than regularly prescribed courses. These include adult basic schools, advanced adult schools, occupational schools and those schools which have as their purpose the upgrading of occupational skills, retraining existing skills, pursuit of special interests, or for enrichment.
42	*Community/Junior College.* An institution of higher education that usually offers the first two years of college instruction and frequently grants an associate degree, but does not grant a bachelor's degree. It is either an independently organized institution (public or nonpublic), an institution which is part of an LEA, or an independently organized system of junior colleges. Junior colleges offer college transfer courses and programs; vocational, technical, and semiprofessional occupational programs; or general education programs.
00	**District-Wide.** Assigned to any expenditure transaction that applies to the entire LEA and not clearly assignable to an instructional level.

Operational Unit

This dimension is commonly used in LEA's: (1) as a way to identify attendance centers; (2) as a budgetary unit or cost center designator; (3) as a means of segregating costs by building structure; and (4) as a location code for payroll check distribution. Examples are shown in chapter 3.

Subject Matter

This dimension describes a group of related subjects. It is offered to permit the accumulation of the costs of providing instruction in particular subject areas. The classifications used here are consistent with the first two digits of the subject matter classification in *Handbook VI.*[5]

The LEA may choose to add more categories to this list and increase the number of digits in the code to allow greater detail of classification.

Code	*Description*
01	**Agriculture.** Activities concerned with preparing for or upgrading in occupations requiring knowledge and skills in agricultural subjects. The instruction emphasizes the functions of agricultural production, agricultural supplies, agricultural mechanization, agricultural products (processing), ornamental horticulture, forestry, agricultural resources, and the services related thereto. The instruction is designed to provide opportunities for students to prepare for or improve their competency in agricultural occupations. An agricultural occupation may include one or any combination of the functions mentioned.
02	**Art.** Activities involving primarily visual, tactile and kinesthetic expression. Included in art instruction are the two-dimensional forms such as drawing, painting, or printmaking; the three-dimensional forms such as sculpture or pottery; other spatial concepts such as architecture and design for the performing arts; and the history and theory of art. Emphasis is placed upon the esthetic and creative factors of visual forms.
03	**Business.** Activities designed to develop in students the attitudes, knowledge, skills, and understanding concerned with business principles and practices. These could be used in personal life, in the business world, or both. Business also includes a wide variety of aspects of general education, e.g., subject matter from other areas such as English (language arts), social sciences/social studies, and mathematics.
04	**Distributive Education.** Activities concerned with directing the flow of goods and services, including their appropriate utilization, from the producer to the consumer. These activities include selling and such sales-supporting functions as buying, transporting, storing, promoting, financing, marketing research and management.
05	**English Language Arts.** Activities concerned with developing (1) an understanding of the language system; (2) proficiency and control in the use of the English language; (3) appreciation of a variety of literary forms; (4) understanding and appreciation of various aspects of past and present cultures as expressed in literature; and

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[5] Putnam, John F., and W. Dale Chismore, *Standard Terminology for Curriculum and Instruction in Local and State School Systems*. Washington, D.C.: U.S. Government Printing Office, 1970. U.S. Department of Health, Education, and Welfare; Office of Education, State Educational Records and Reports Series, *Handbook VI*, Bulletin OE 23053.

Subject (continued)

Code	*Description*
	(5) interests which will motivate lifelong learning.
06	**Foreign Language**. Includes the body of subject matter in this area that is comprised of a variety of foreign languages, including English as a foreign language. Classified under this heading are the various classical and modern foreign languages.
07	**Health Occupations Education**. Activities designed to impart knowledge and develop understanding and skills required to support the health professions. Instruction is organized to prepare students for occupational objectives concerned with assisting qualified personnel in providing diagnostic, therapeutic, preventive, restorative, and rehabilitative services to people. Instruction also includes understanding and skills essential to provide care and health services to patients.
08	**Health and Safety in Daily Living, Physical Education, and Recreation**. Includes the body of related subject matter and activities in health and safety in daily living, physical education, and recreation. These areas are organized for carrying on learning experiences concerned with developing (1) knowledge, attitudes, appreciation, and conduct essential to individual and group health; (2) awareness of, concern for, and knowledge, skills, and judgment necessary for practicing and promoting personal and public safety in the home, at school, on the job, and in traffic; and (3) physical and mental growth and fitness through activities designed to improve the muscles, motor skills, attitudes and habits of conduct of individuals and groups.
09	**Home Economics**. Activities organized to enable students to acquire knowledge and develop understanding, attitudes, and skills relevant to (a) personal, home, and family life, and (b) occupational preparation using the knowledge and skills of home economics. The subject matter of home economics includes, in addition to that which is unique to the area, concepts drawn from the natural and social sciences and the humanities.
10	**Industrial Arts.** Activities organized to develop understanding about the technical, consumer, occupational, recreational, organizational, managerial, social, historical, and cultural aspects of industry and technology. Learning experiences involve activities such as experimenting, designing, constructing, evaluating, and using tools, machines, materials, and processes that provide opportunities for creativity and problem solving.
11	**Mathematics.** Activities concerned with the science of relations existing between quantities (magnitude) and operations, and with the science of methods used for deducing from other quantities, known or supposed, the quantities sought.
12	**Music**. Includes the fine art that utilizes sounds in time in a meaningful and organized manner. Subject matter and activities in music are designed to impart the skills and knowledge necessary for understanding, appreciating, creating, performing, and enjoying music.
13	**Natural Sciences**. Activities concerned with knowledge of the physical and biological world, and of the processes of discovering and validating this knowledge.
14	**Office Occupations**. Activities organized into programs of instruction to provide opportunities for students to prepare for and achieve career objectives in selected office occupations. In the instructional process, various aspects of subject matter frequently are drawn from other subject-matter areas. Learning experiences are designed to lead to individual employment, advancement, or both, in occupations in public or private enterprises or organizations related to the facilitating function of the office. "Facilitating function", as used here refers to the expediting role played by office occupations as the connecting link between the production and distribution activities of an organization. Included is a variety of activities, such as recording and retrieving data, supervising and coordinating office activities, communicating internally and externally, and reporting information.
15	**Social Sciences.** Comprised of interrelated subject matter organized to impart knowledge, develop skills, and identify goals concerning elements and institutions of human society. This learning occurs through the disciplines of history, economics, political science, sociology, anthropology, psychology, geography and philosophy.

Code Description

16 **Technical Education**. Concerned with that body of knowledge organized in a planned sequence of classroom and laboratory experiences, usually at the postsecondary level, to prepare students for a cluster of job opportunities in a specialized field of technology. The program of instruction normally includes the study of the underlying sciences and supporting mathematics inherent in a technology, as well as methods, skills, materials, and processes commonly used and services performed in the technology. A planned sequence of study and extensive knowledge in a field of specialization is required in technical education, including competency in the basic communication skills and related general education. Technical education prepares for the occupational area between the skilled craftsman and the professional person.

17 **Trades and Industrial Occupations**. Comprises the branch of vocational education which is concerned with preparing persons for initial employment, or for upgrading or retraining workers in a wide range of trade and industrial occupations. Such occupations are skilled or semiskilled and are concerned with layout designing, producing, processing, assembling, testing, maintaining, servicing, or repairing any product or commodity. Instruction is provided (1) in basic manipulative skills, safety judgment, and related occupational information in mathematics, drafting, and science required to perform successfully in the occupation; and (2) through a combination of shop or laboratory experiences simulating those found in industry and classroom learning. Included is instruction for apprentices in apprenticeable occupations or for journeymen already engaged in a trade or industrial occupation. Also included is training for service and certain semiprofessional occupations considered to be trade and industrial in nature.

18 **General Elementary/Secondary Education**. Refers to instruction which takes place in a self-contained class. Learning experiences are concerned with the knowledge, skills, appreciation, attitudes, and behavioral characteristics considered to be needed by all students for the broad educational outcomes they should achieve to the limits of their capacities during the elementary and secondary school years.

19 **Differentialized Curriculum for Handicapped Students**. For students whose handicaps are of such a nature and degree as to interfere with intellectual development and learning under regular class methods. These students, therefore, require differentialized curriculum for some part—and, frequently, for all—of their education.

20 **Cocurricular Activities**. Comprised of the group of school-sponsored activities under the guidance of qualified adults. These activities are designed to provide opportunities for students to participate in such experiences on an individual basis, in small groups, or in large groups—at school events, public events, or a combination of these—for purposes such as motivation, enjoyment, and improvement of skills. In practice, participation usually is not required and credit usually is not given. When participation is required or credit is given, the activity generally is considered to be a course.

21 **Safety and Driver Education**. Activities in safety and driver education are organized to develop the ability to operate a motor vehicle and to respond appropriately when driving or walking in traffic. Subject matter and activities in safety education are primarily concerned with enhancing personal characteristics and values involved in preventing accidents and saving lives.

22 **Junior ROTC**. Activities organized into programs of instruction to provide opportunities for students to prepare for and achieve career objectives in selected branches of the military service. In the instructional process various aspects of subject matter frequently are drawn from other subject-matter areas.

Job Classification

This dimension enables LEA's to break down expenditures for salaries and employee benefits by the employees' job classification. (It should not be used with object codes 300-900.) This dimension is used at least three ways in school accounting: (1) to classify payroll costs for personnel purposes according to the classifications contained in *Handbook IVR*,[6] (2) to

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[6] Roberts, Charles T., *Staff Accounting: Classifications and Standard Terminology for Local and State School Systems*, Washington, D.C.: U.S. Government Printing Office, 1974. U.S. Department of Health, Education, and Welfare; Office of Education, State Educational Records and Reports Series, *Handbook IV*, Revised, Bulletin 74-314.

Classification (continued)

segregate certified and non-certified salaries and benefits; and (3) to accumulate payroll costs by bargaining unit for purposes of labor negotiations. For personnel use, the descriptors for each classification follow.

Code	*Description*
1	**Official/Administrative**. A grouping of assignments comprising the various skill levels required to perform management activities. These activities include developing broad policies for the LEA and executing these policies by directing staff members at all levels of the LEA. Activities performed directly for policymakers are also included here. The Official/Administrative classification does not preclude Professional-Education or Professional-Other status. This classification normally includes the district-wide administrators and Board of Education members and Board of Education-appointed officials.
2	**Professional–Educational**. A grouping of assignments requiring a high degree of knowledge and skills acquired through at least a baccalaureate degree (or its equivalent obtained through special study, experience, or both). This learning includes skills in education or educational psychology. Included are curriculum specialists, counselors, library/media specialists, remedial specialists and teachers. Teachers' aides are classified under *4–Technical.*
3	**Professional–Other**. A grouping of assignments requiring a high degree of knowledge and skills acquired through at least a baccalaureate degree (or its equivalent obtained through special study, experience, or both), but not requiring skills in education. This classification normally includes nurses, social workers and psychologists, architects, lawyers, accountants, physicians and therapists, among others.
4	**Technical**. A grouping of assignments requiring a combination of basic scientific knowledge and manual skills which can be obtained through approximately 2 years of post-high school education. Such education is offered, for example, in junior/community colleges and technical institutes, or through equivalent special study, on-the-job training, or both. This classification normally includes interns, aides, computer operators, practical nurses and the like.
5	**Office/Clerical**. A grouping of assignments to perform the activities of preparing, transferring, transcribing, systematizing, or preserving communications, records, and transactions, regardless of the level of skills required, where the activities are predominantly nonmanual.
6	**Crafts and Trades**. A grouping of manual assignments requiring a relatively high skill level (usually acquired through an extensive period of training). They also require considerable judgment and a thorough and comprehensive knowledge of the processes involved in the work. This classification normally includes carpenters, electricians, painters, plumbers and mechanics.
7	**Operative**. A grouping of manual assignments requiring an intermediate skill level (which can be mastered in a few weeks through limited training) necessary to operate machines. This classification normally includes any bus or truck drivers.
8	**Laborer**. A grouping of manual assignments which generally require no special training. All laborers who lift, dig, mix, load and pull would be classified in this general job classification. Under the Laborer classification, the one fairly common specific activity assignment associated with an LEA is groundskeeping. Other activity assignments may be added by the local administrator if needed by a particular LEA.
9	**Service Work**. A grouping of assignments, regardless of level of difficulty, that relate to both protective and non-protective support services. Under the Service Work classification, the following activity assignments are the most common in the LEA: custodians, warehousemen and food service employees. The list may be expanded as necessary at the discretion of the local administrator.

Special Cost Center

Finally, it is recognized that LEA's utilize many other methods of classifying expenditures for particular purposes. None of these methods is used with enough regularity for inclusion here, but when used, they are important. Examples of the use of this dimension are shown in chapter 3.

Balance Sheet Accounts

Assets and Other Debits

Assets and other debits include what is owned and what is not owned (as of the date of the balance sheet) but is expected to become fully owned at some future date. Also included are other budgeting and offsetting accounts which normally have debit balances.

Code	*Description*
	Current Assets. Cash or anything that can be readily converted into cash.
101	**Cash in Bank.** All funds on deposit with a bank or savings and loan institution normally in non-interest-bearing accounts. Interest-bearing accounts are recorded in investments.
102	**Cash on Hand.** Currency, coins, checks, postal and express money orders, and bankers' drafts on hand.
103	**Petty Cash.** A sum of money set aside for the purpose of paying small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming.
104	**Change Cash.** A sum of money set aside to provide change.
105	**Cash With Fiscal Agents.** Deposits with fiscal agents, such as commercial banks, for paying matured bonds and interest.
111	**Investments.** Securities and real estate held for producing income in the form of interest, dividends, rentals or lease payments. The account does not include fixed assets used in LEA operations. Separate accounts for each category of investments may be maintained.
112	**Unamortized Premiums on Investments.** The excess of the amount paid for securities over the face value which has not yet been amortized. Use of this account is restricted to long-term investments.
113	**Unamortized Discounts on Investments (Credit).** The excess of the face value of securities over the amount paid for them which has not yet been written off. Use of this account is normally restricted to long-term investments.
114	**Interest Receivable on Investments.** The amount of interest receivable on investments, excluding interest purchased. Interest purchased should be shown in a separate account.
115	**Accrued Interest on Investments Purchased.** Interest accrued on investments between the last interest payment date and date of purchase. The account is carried as an asset until the first interest payment date after date of purchase. Upon receipt and deposit of the cash, an entry is made debiting the account Cash in Bank, and crediting the Accrued Interest on Investments Purchased account for the amount of interest purchased and an Interest Earning revenue account (1510) for the balance.
121	**Taxes Receivable.** The uncollected portion of taxes which an LEA or governmental unit has levied and which has become due, including any interest or penalties which may be accrued. Separate accounts may be maintained on the basis of tax roll year, current and delinquent taxes, or both.
122	**Estimated Uncollectible Taxes (Credit).** That portion of taxes receivable it is estimated will not be collected. The account is shown on the balance sheet as a deduction from the Taxes Receivable account in order to arrive at the net taxes receivable. Separate accounts may be maintained on the basis of tax roll year, delinquent taxes, or both.
131	**Interfund Loans Receivable.** An asset account used to record a loan by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund receivable loan.
132	**Interfund Accounts Receivable.** An asset account used to indicate amounts owed to a particular fund by another fund in the same LEA for goods sold or services rendered. It is recommended that separate accounts be maintained for each interfund receivable.
141	**Intergovernmental Accounts Receivable.** Amounts due to the reporting governmental unit from another governmental unit. These amounts may represent grants-in-aid, shared taxes, taxes collected for the reporting unit by another unit, loans, and charges for services rendered by the reporting unit for another government. It is recommended that separate accounts be maintained for each interagency receivable.

Assets and Other Debits (continued)

Code	*Description*
151	**Loans Receivable**. Amounts which have been loaned to persons or organizations, including notes taken as security for such loans, where permitted by statutory authority.
152	**Estimated Uncollectible Loans (Credit)**. That portion of loans receivable which is estimated will not be collected. The account is shown on the balance sheet as a deduction from the Other Loans Receivable account.
153	**Other Accounts Receivable**. Amounts owing on open account from private persons, firms, or corporations for goods and services furnished by an LEA (but not including amounts due from other funds or from other governmental units).
154	**Estimated Uncollectible Accounts Receivable (Credit)**. A provision for that portion of accounts receivable which is estimated will not be collected. The account is shown on the balance sheet as a deduction from the Other Accounts Receivable account.
161	**Bond Proceeds Receivable**. An account used to designate the amount receivable upon sale of bonds.
171	**Inventories for Consumption**. The cost of supplies and equipment on hand not yet distributed to requisitioning units.
172	**Inventories for Resale**. The value of goods held by an LEA for resale rather than for use in its own operations.
181	**Prepaid Expenses**. Expenses paid for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Examples of prepaid expenses are prepaid rent, prepaid interest, and unexpired insurance premiums. An example of a deferred charge is unamortized discounts on bonds sold.
191	**Deposits**. Funds deposited by the LEA as prerequisite to receiving services, goods, or both.
199	**Other Current Assets**. Current assets not provided for elsewhere.

Fixed Assets. Those assets which the LEA intends to hold or continue in use over a long period of time.

Code	*Description*
211	**Sites**. A fixed asset account which reflects the acquisition value of land owned by an LEA. If land is purchased, this account includes the purchase price and costs such as legal fees, filling and excavation costs, and other associated improvement costs incurred to put the land in condition for its intended use. If land is acquired by gift, the account reflects its appraised value at the time of acquisition.
221	**Site Improvements**. A fixed asset account which reflects the acquisition value of permanent improvements, other than buildings, which add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels and bridges. If the improvements are purchased or constructed, this account contains the purchase or contract price. If improvements are obtained by gift, it reflects the appraised value at the time of acquisition.
222	**Accumulated Depreciation on Site Improvements**. Accumulated amounts for depreciation of land improvements. The recording of depreciation is optional in the general fixed assets account group.
231	**Buildings and Building Improvements**. A fixed asset account which reflects the acquisition value of permanent structures used to house persons and property owned by the LEA. If buildings are purchased or constructed, this account includes the purchase or contract price of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. This account includes all building improvements. If buildings are acquired by gift, the account reflects their appraised value at the time of acquisition.
232	**Accumulated Depreciation on Buildings and Building Improvements**. Accumulated amounts for depreciation of buildings and building improvements. The recording of depreciation is optional in the general fixed assets account group.
241	**Machinery and Equipment**. Tangible property of a more or less permanent nature, other than land, buildings, or improvements thereto, which is useful in carrying on operations. Examples are machinery, tools, trucks, cars, buses, furniture and furnishings. Appendix D provides criteria to distinguish whether a purchase is a supply or a piece of machinery or equipment.

Code *Description*

242 **Accumulated Depreciation on Machinery and Equipment.** Accumulated amounts for depreciation of machinery and equipment. The recording of depreciation is optional in the general fixed assets account group and required in the proprietary funds.

251 **Construction in Progress.** The cost of construction work undertaken but not yet completed.

Budgeting Accounts and Other Debits. Budgeted and actual amounts for revenues as well as offsetting accounts which normally have debit balances.

301 **Estimated Revenues (Budget Account).** The amount of revenues estimated to be received or to become receivable during the fiscal period. At the end of the fiscal period, the account is closed out and does not appear in the balance sheet. This account would appear in interim financial statements.

302 **Revenues.** The total of all revenues realized during a period. This represents the increase in ownership equity during a designated period of time. The account appears only in a balance sheet prepared during the fiscal period. At the end of the fiscal period, the account is closed out and does not appear in the balance sheet.

303 **Amount Available in Debt Service Funds.** An account in the General Long-Term Debt Account Group which designates the amount of fund balance available in the Debt Service Fund for the retirement of long-term debt.

304 **Amount To Be Provided for Retirement of General Long-Term Debt.** An account in the General Long-Term Debt Account Group which designates the amount to be provided from taxes or other revenue to retire long-term debt.

Liabilities, Reserves and Fund Balance

Liabilities, reserves, and fund balance are LEA debts plus items which are not debts but which may become debts at some future time. Also included are other budgeting accounts which normally appear only on the interim financial statements.

Code *Description*

Current Liabilities. Those debts the LEA expects to pay within a short period of time, usually within a year or less.

Code *Description*

401 **Interfund Loans Payable.** A liability account used to record a debt owed by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund loan.

402 **Interfund Accounts Payable.** A liability account used to indicate amounts owned by a particular fund to another fund in the same LEA for goods and services rendered. It is recommended that separate accounts be maintained for each interfund payable.

411 **Intergovernmental Accounts Payable.** Amounts owed by the reporting LEA to another governmental unit. It is recommended that separate accounts be maintained for each interagency payable.

421 **Accounts Payable.** Liabilities on open account owing to private persons, firms, or corporations for goods and services received by an LEA (but not including amounts due to other funds of the same LEA or to other governmental units).

422 **Judgments Payable.** Amounts due to be paid by an LEA as the result of court decisions, including condemnation awards paid for private property taken for public use.

423 **Warrants Payable.** Amounts due to designated payees in the form of a written order drawn by the LEA directing the LEA treasurer to pay a specific amount.

431 **Contracts Payable.** Amounts due on contracts for assets, goods and services received by an LEA.

432 **Construction Contracts Payable-Retained Percentage.** Liabilities on account of construction contracts for that portion of the work which has been completed but on which part of the liability has not been paid–pending final inspection, or the lapse of a specified time period, or both. The unpaid amount is usually a stated percentage of the contract price.

433 **Construction Contracts Payable.** Amounts due by an LEA on contracts for constructing buildings and other structures, and other improvements.

441 **Matured Bonds Payable.** Bonds which have reached or passed their maturity date but which remain unpaid.

Liabilities, Reserves and Fund Balance (continued)

Code	*Description*
442	**Bonds Payable**. Bonds which have not reached or passed their maturity date but are due within one year or less.
443	**Unamortized Premiums on Bonds Sold**. An account which represents that portion of the excess of bond proceeds over par value and which remains to be amortized over the remaining life of such bonds.
451	**Loans Payable**. Short-term obligations representing amounts borrowed for short periods of time, usually evidenced by notes payable or warrants payable.
455	**Interest Payable**. Interest due within one year.
461	**Accrued Salaries and Benefits**. Salary and fringe benefit costs incurred during the current accounting period which are not payable until a subsequent accounting period.
471	**Payroll Deductions and Withholdings**. Amounts deducted from employees salaries for withholding taxes and other purposes. District-paid benefits amounts payable also are included. A separate liability account may be used for each type of benefit.
481	**Deferred Revenues**. A liability account which represents revenues collected before they become due.
491	**Deposits Payable**. Liability for deposits received as a prerequisite to providing or receiving services, goods, or both.
492	**Due to Fiscal Agent**. Amounts due to fiscal agents, such as commercial banks, for serving an LEA's matured indebtness.
499	**Other Current Liabilities**. Other current liabilities not provided for elsewhere.

Long-Term Liabilities. Debt with a maturity of more than one year after the date of issuance.

Code	*Description*
511	**Bonds Payable**. Bonds which have not reached or passed their maturity date and which are not due within one year.
521	**Loans Payable.** An unconditional written promise signed by the maker to pay a certain sum of money one year or more after the issuance date.
531	**Lease Obligations**. Amounts remaining to be paid on lease purchase agreements.
541	**Unfunded Pension Liabilities**. The amount of the actuarial deficiency on a locally-operated pension plan to be contributed by the LEA on behalf of present employees.
590	**Other Long-Term Liabilities**. Other long-term liabilities not provided for elsewhere.

Budgeting Accounts. These categories represent accounts which reflect budgeted and actual amounts related to expenditures and encumbrances.

Code	*Description*
601	**Appropriations (Budget Account).** This account records authorizations granted by the school board or legislative body to make expenditures for specific purposes. This account appears in a balance sheet prepared during the fiscal period. It is closed out and does not appear in the balance sheet prepared at the close of the fiscal period.
602	**Expenditures/Expenses**. This account appears in balance sheets prepared during the fiscal period and designates the total of expenditures (or operating expenses in proprietary funds) charged against appropriations during this period. The expenditure account is shown in each governmental fund balance sheet as a deduction from the Appropriations account to arrive at the unexpended balance of total appropriations.
603	**Encumbrances**. This account designates obligations in the form of purchase orders, contracts, or salary commitments chargeable to an appropriation and for which part of the appropriation is reserved. In an interim balance sheet, encumbrances are deducted, along with the expenditures from the Appropriations account, to arrive at the unencumbered balance.

Fund Equity. These are accounts showing the excess of a fund over its liabilities. Portions of that balance may be reserved for future use.

Code	*Description*
711	**Investment in General Fixed Assets**. An account in the General Fixed Assets Account Group which represents the LEA's equity in general fixed assets. The balance of this account is normally subdivided according to the source of funds that financed the asset acquisition,

Code	Description
	such as General Fund revenues, bond issues and contributions.
721	**Contributed Capital**. An equity account in the proprietary funds showing the amount of fund capital contributed by the governmental unit from general government revenue and resources. Annual subsidies to cover operating deficits are not recorded here. These amounts are recorded as other sources (interfund transfers) and closed to the unreserved retained earnings account (740).
730	**Reserved-Retained Earnings**. The accumulated earnings of the proprietary funds which have been retained in the fund and which are reserved for a specific purpose. One example would be funds reserved for the future purchase of equipment.
740	**Unreserved-Retained Earnings**. The accumulated earnings of the proprietary funds that have been retained in the fund and that are not reserved for any specific purpose.
751	**Reserve for Inventories**. A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are tied up in inventories and are, therefore, not available for appropriation. The use of this account is optional.
752	**Reserve for Prepaid Expenses**. A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are tied up in prepaid expenses and are, therefore, not available for appropriation. The use of this account is optional.
753	**Reserve for Encumbrances**. A reserve representing that portion of a fund balance segregated to provide for unliquidated encumbrances. Separate accounts may be maintained for current encumbrances and prior-year encumbrances.
760	**Reserved-Fund Balance**. A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are tied up and are, therefore, not available for appropriation. It is recommended that a separate reserve be established for each special purpose. One example of a special purpose would be restricted Federal programs.
770	**Unreserved-Fund Balance**. The excess of the assets of a fund over its liabilities and reserves.

Appendixes

A. Examples of Financial Statements

B. Minimum Classifications Essential for Federal Reporting

C. Cash-Basis/Single-Entry Accounts

D. Supplies and Equipment

E. Federal Revenue Sources

F. Nonpublic School Chart of Accounts Crosswalk

G. Acknowledgments

Appendix A

Examples of Financial Statements

There are three levels of differential financial reporting: the comprehensive annual financial report, general purpose financial statements, and the popular report. These reports are illustrated in the financial reporting "pyramid" shown in figure 7. This appendix does not address the comprehensive annual financial report or the popular report. These financial reports are addressed in *Principles of Public School Accounting*.

The general purpose financial statements should be designed to meet most of the needs of those interested in the LEA's finances. These statements would be at the second level from the top in the financial reporting pyramid. Examples A-F illustrate the general purpose financial statements required for the fair presentation of financial position and results of operation. Each of these statements is explained below.

Combined Balance Sheet—All Fund Types and Account Groups (Example A)

This statement is a summary of the assets and other debits, liabilities and equities of all funds and account groups of the LEA. The fund types and account groups are classified into the following categories: general governmental fund types, proprietary fund types, fiduciary fund types and account groups. The totals of the amounts in all fund types and account groups are reported for each caption. Eliminations may or may not be made in arriving at the total. If eliminations are made, it should be disclosed by the heading on the statement. Eliminations have not been made on example A.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds (Example B)

This statement is a summary of the operations and other equity changes of the general governmental funds and expendable trust funds. The statement contains a separate column for each of the general governmental fund types maintained by the LEA. The final number in each column should agree with the equity balance for that fund type as reported in the balance sheet. Excessive detail should be avoided in choosing the captions for reporting revenues and expenditures.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual—General and Special Revenue Fund Types (Example C)

This statement is presented to display a comparison of the actual results with the budget. With the exception of budget data, this statement contains the same captions and amounts as example B. The statements have three columns: "Budget", "Actual" and "Over-Under Budget." This statement should also include budget and actual data for other governmental fund types for which budgets have been adopted. The budget data should be obtained from the LEA's legally adopted budget. Obviously, the budget and the actual should be prepared on the same accounting basis, i.e., accrual or modified accrual.

Combined Statement of Revenues, Expenses and Changes in Fund Equity—All Proprietary Fund Types and Non-Expendable Trust Funds (Example D)

This statement presents a summary of the revenues, expenses, other sources and uses of resources, and changes in retained earnings. There is a column for each fund group presenting the totals for all funds in that group. The final numbers in each column should agree with the equity balances for that fund type as reported on the balance sheet (example A).

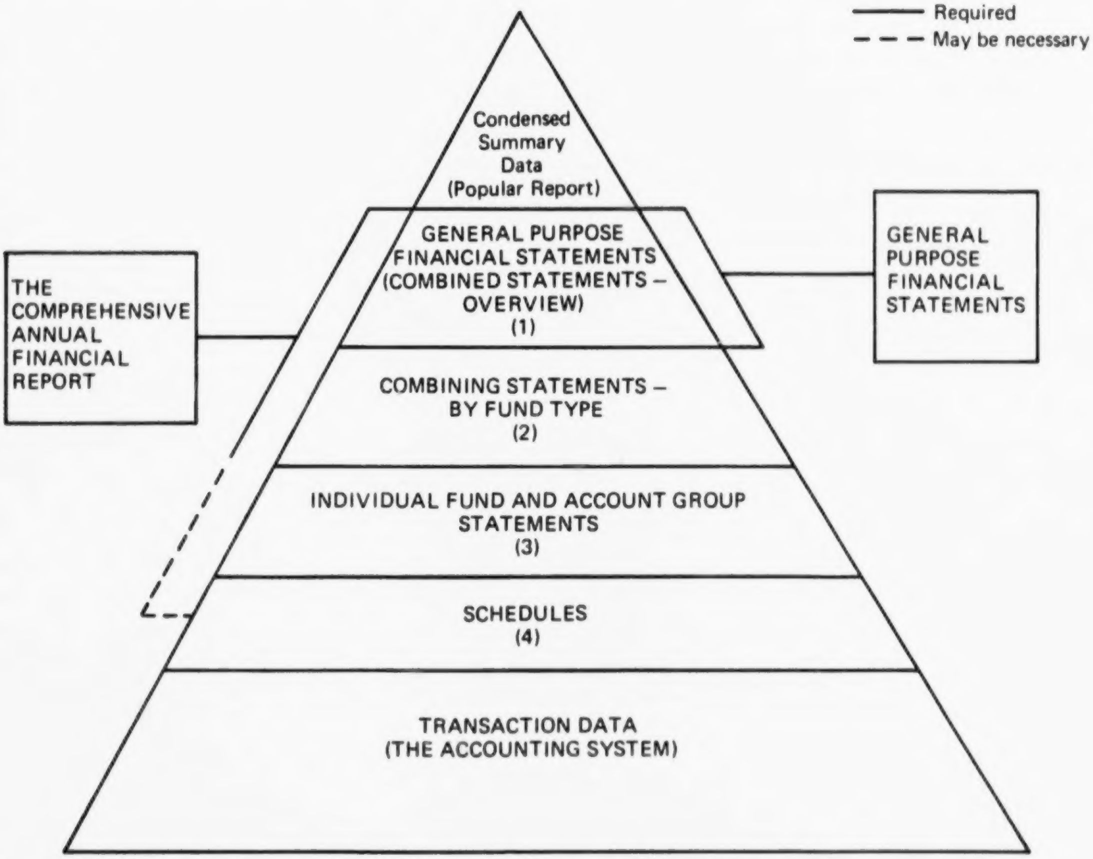
Combined Statement of Changes in Financial Position—All Proprietary Fund Types and Non-Expendable Trust Funds (Example E)

This statement discloses the working capital or cash provided from or used in the operations of a specific period. It also provides a link between the balance sheet (example A) and the statement of operations (examples B & D) for transactions that are not disclosed. The "elements of net increase (decrease) in working capital" reflect changes in the current asset and current liability accounts during the reporting period. This statement could be considered a "statement of source and application of funds."

Notes to Financial Statements (Example F)

The notes are explained in example F

Figure 7. – The financial reporting "pyramid"


Required
May be necessary
Condensed Summary Data (Popular Report)
GENERAL PURPOSE FINANCIAL STATEMENTS (COMBINED STATEMENTS – OVERVIEW) (1)
COMBINING STATEMENTS – BY FUND TYPE (2)
INDIVIDUAL FUND AND ACCOUNT GROUP STATEMENTS (3)
SCHEDULES (4)
TRANSACTION DATA (THE ACCOUNTING SYSTEM)
THE COMPREHENSIVE ANNUAL FINANCIAL REPORT
GENERAL PURPOSE FINANCIAL STATEMENTS

Source: The National Council on Governmental Accounting's *Governmental Accounting and Financial Reporting Principles, Statement 1*, published by the Municipal Finance Officers Association, Chicago, Illinois, March 1979.

Example A.–School district XYZ: combined balance sheet; all fund types and account groups, June 30, 19XX

Assets and other debits	Governmental fund types				Proprietary fund types		Fiduciary fund types	Account groups		Totals (memorandum only)
	General	Special revenue	Debt service	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term debt	
Current assets:										
Cash	$56,050	$23,310	$34,210	$12,700	$78,090	$10,500	$5,620			$219,480
Cash with fiscal agents			92,000							92,000
Investments	215,000	65,000	132,000	419,000			270,000			1,101,000
Taxes receivable (net of allowances for estimated uncollectibles, see notes to financial statements)	62,000	2,660	4,250							68,910
Interfund receivables	67,000			15,000	2,000	11,200	11,000			106,200
Intergovernmental receivables	30,000	75,260								105,260
Other receivables (net of allowances for estimated uncollectibles, see notes to financial statements)	950				3,900					4,850
Bond proceeds receivable				10,000						10,000
Inventories	27,200	9,400		800	45,900	18,200				101,500
Prepaid expenses	32,500	31,300			1,480	1,480				66,760
Other current assets	12,200	900								13,100
Total current assets	502,900	206,830	262,460	457,500	131,370	41,380	286,620			1,889,060
Fixed assets:										
Sites								$192,000		192,000
Site improvements (net of accumulated depreciation, $4,240)								39,260		39,260
Buildings (net of accumulated depreciation, $429,480)								3,994,320		3,994,320
Machinery and equipment (net of accumulated depreciation, see notes to financial statements)					52,050	54,950		709,080		816,080
Construction in progress								892,000		892,000
Total fixed assets					52,050	54,950		5,826,660		5,933,660
Other debits										
Amount available in debt service funds									$169,710	169,710
Amount to be provided for retirement of general long-term debt									2,630,290	2,630,290
Total other debits									2,800,000	2,800,000

Example A.–School district XYZ: combined balance sheet; all fund types and account groups, June 30, 19XX–continued

Liabilities and fund equity	Governmental fund types				Proprietary fund types		Fiduciary fund types	Account groups		Totals (memorandum only)
	General	Special revenue	Debt service	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term debt	
Current liabilities:										
Interfund payables	$35,200	$2,000		$4,000		$65,000				$106,200
Intergovernmental payables		9,250					$42,000			51,250
Other payables	87,950	36,150		48,600	$16,400	15,000				204,100
Contracts payable	57,600	18,000		69,000	26,100					170,700
Matured bonds payable			$50,000							50,000
Loans payable	60,000									60,000
Interest payable	3,000		42,250							45,750
Accrued expenses	34,300	19,900			2,280	4,260				60,740
Payroll deductions and withholdings	3,900	1,780			210	380				6,270
Deferred revenues	18,000									18,000
Other current liabilities	900	800								1,700
Total current liabilities	300,850	87,880	92,750	121,600	44,990	82,640	42,000			774,710
Long-term liabilities:										
Bonds payable									$2,700,000	2,700,000
Notes payable									90,000	90,000
Lease obligations									10,000	10,000
Total long-term liabilities									2,800,000	2,800,000
Fund equity:										
Investment in general fixed assets								$5,826,660		5,826,660
Contributed capital					50,000	8,000				58,000
Retained earnings:										
Reserved for property purchases					8,000					8,000
Unreserved					80,430	3,690				84,120
Fund balances										
Reserved for inventories	27,200	9,400								36,600
Reserved for prepaid expenses	32,500	31,300								63,800
Reserved for encumbrances	38,000	46,500								84,500
Reserved for construction				300,800						300,800
Unreserved	104,350	31,750	169,710	35,100			244,620			585,530
Total fund equity	202,050	118,950	169,710	335,900	138,430	11,690	244,620	5,826,660		7,048,010
Total liabilities and fund equity	502,900	206,830	262,460	457,500	183,420	94,330	286,620	5,826,660	2,800,000	10,622,720

Example B.–School district XYZ: combined statement of revenues, expenditures, and changes in fund balances; all governmental fund types and expendable trust funds, for the fiscal year ended June 30, 19XX

	Governmental fund types				Fiduciary fund type	Totals (memorandum only)
	General	Special revenue	Debt service	Capital projects	Expendable trust	
Revenues:						
Local sources:						
Taxes	$1,016,660	$238,000	$110,000			$1,364,660
Tuition	17,440					17,440
Earnings on investments	2,200	1,000	17,840	$42,050	$200	63,290
Textbook rentals	9,250					9,250
	1,045,550	239,000	127,840	42,050	200	1,454,640
State sources:						
Unrestricted grants-in-aid	413,000					413,000
Restricted grants-in-aid	30,000	2,400	14,000			46,400
	443,000	2,400	14,000			459,400
Federal sources:						
Unrestricted grants-in-aid	8,900					8,900
Restricted grants-in-aid	100,000	19,000				119,000
	108,900	19,000				127,900
Total revenues	1,597,450	260,400	141,840	42,050	200	2,041,940
Expenditures:						
Instruction services						
Regular education programs	680,590	19,010				699,600
Special programs	134,200	161,230				295,430
Vocational education programs	86,270					86,270
Other instructional programs	42,090					42,090
Nonpublic school programs	1,290	4,760				6,050
Adult/continuing education programs	10,430					10,430
Community services programs	3,710					3,710
	958,580	185,000				1,143,580
Supporting services:						
Student	78,500	14,800				93,300
Instructional staff	51,350	9,200				60,550
General administration	52,100	18,000				70,100
School administration	141,980					141,980
Business	19,970					19,970
Operation and maintenance of plant	169,080					169,080
Student transportation	17,250					17,250
Central	10,840					10,840
Other	46,820					46,820
	587,890	42,000				629,890

Example B.–School district XYZ: combined statement of revenues, expenditures, and changes in fund balances; all governmental fund types and expendable trust funds, for the fiscal year ended June 30, 19XX–continued

	Governmental fund types				Fiduciary fund type	Totals (memorandum only)
	General	Special revenue	Debt service	Capital projects	Expendable trust	
Expenditures–continued:						
Operation of non-instructional services					2,420	2,420
Facilities acquisition and construction services				813,800		813,800
Debt service			114,420			114,420
Total expenditures	1,546,470	227,000	114,420	813,800	2,420	2,704,110
Excess of revenues over (under) expenditures	50,980	33,400	27,420	(771,750)	(2,220)	(662,170)
Other financing sources (uses):						
Proceeds from the sale of bonds				950,000		950,000
Operating transfers in				18,000	2,530	20,530
Operating transfers out	(50,000)					(50,000)
Total other financing sources (uses)	(50,000)			968,000	2,530	920,530
Excess of revenues and other sources over (under) expenditures and other uses	980	33,400	27,420	196,250	310	258,360
Fund balances–July 1	201,070	85,550	142,290	139,650	26,560	595,120
Fund balances–June 30	202,050	118,950	169,710	335,900	26,870	853,480

The notes to the financial statement are an integral part of this statement.

Example C.–School district XYZ: statements of revenues, expenditures, and changes in fund balances–budget and actual; general and special revenue fund types, for the fiscal year ended June 30, 19XX

	General fund			Special revenue funds		
	Budget	Actual	Over (under) budget	Budget	Actual	Over (under) budget
Revenues:						
Local sources:						
Taxes	$1,202,700	$1,146,660	($56,040)	$89,000	$109,000	$20,000
Tuition	14,000	17,440	3,440			
Earnings on investments	3,500	2,200	(1,300)			
Textbook sales and rentals	8,600	9,250	650			
	1,228,800	1,175,550	(53,250)	89,000	109,000	20,000
State sources:						
Unrestricted grants-in-aid	485,000	413,000	(72,000)			
Restricted grant-in-aid				34,000	32,400	(1,600)
	485,000	413,000	(72,000)	34,000	32,400	(1,600)
Federal sources:						
Unrestricted grants-in-aid	9,200	8,900	(300)			
Restricted grants-in-aid				112,000	119,000	7,000
	9,200	8,900	(300)	112,000	119,000	7,000
Total revenues	1,723,000	1,597,450	(125,550)	235,000	260,400	25,400
Expenditures:						
Instruction services						
Regular education programs	685,000	680,590	(4,410)	20,000	19,010	(990)
Special programs	137,000	134,200	(2,800)	165,000	161,230	(3,770)
Vocational education programs	83,000	86,270	3,270			
Other instructional programs	45,000	42,090	(2,910)			
Nonpublic school programs	1,000	1,290	290	5,000	4,760	(240)
Adult-continuing education programs	10,000	10,430	430			
Community services programs	4,000	3,710	(290)			
	965,000	958,580	(6,420)	190,000	185,000	(5,000)
Supporting services						
Student	79,500	78,500	(1,000)	13,000	14,800	1,800
Instructional staff	50,900	51,350	450	11,500	9,200	(2,300)
General administration	54,800	52,100	(2,700)	20,500	18,000	(2,500)
School administration	152,000	141,980	(10,020)			
Business	18,000	19,970	1,970			
Operation and maintenance of plant	142,000	169,080	27,080			
Student transportation	30,800	17,250	(13,550)			
Central	12,000	10,840	(1,160)			
Other	50,000	46,820	(3,180)			
	590,000	587,890	(2,110)	45,000	42,000	(3,000)
Total expenditures	1,555,000	1,546,470	(8,530)	235,000	227,000	(8,000)
Excess of revenues over (under) expenditures	168,000	50,980	(117,020)		33,400	33,400
Other financing sources (uses) operating transfers out	(50,000)	(50,000)				
Excess of revenues and other sources over (under) expenditures and other uses	118,000	980	(117,020)		33,400	33,400
Fund balances–July 1	201,070	201,070		85,550	85,550	
Fund balances–June 30	319,070	202,050	(117,020)	85,550	118,950	33,400

The notes to the financial statements are an integral part of this statement.

Example D.–School district XYZ: combined statement of revenues, expenses, and changes in fund equity; all proprietary fund types and nonexpendable trust funds, for the fiscal year ended June 20, 19XX

	Proprietary fund types				Fiduciary fund type	Totals (memorandum only)
	Enterprise funds			Internal service	Nonexpendable trust	
	Food service	Bookstore	Total			
Operating revenues:						
Local sources:						
Earnings on investments					$2,580	$2,580
Food service sales	$136,200		$136,200			136,200
Bookstore sales		$9,440	9,440			9,440
Charges for services				$43,335		43,335
Total operating revenues	136,200	9,440	145,640	43,335	2,580	191,555
Operating expenses:						
Personal services	49,820	3,260	53,080	22,820		75,900
Employee benefits	4,600	200	4,800	2,290		7,090
Purchased services	19,200	90	19,290	1,810		21,100
Supplies and other expenses	130,540	260	130,800	21,090		151,890
Depreciation	4,890	180	5,070	2,600		7,670
Total operating expenses	209,050	3,990	213,040	50,610		263,650
Operating income (loss)	(72,850)	5,450	(67,400)	(7,275)	2,580	(72,095)
Non-operating revenues:						
State sources:						
Restricted grants-in-aid	1,950		1,950			1,950
Federal sources:						
Restricted grants-in-aid	12,000		12,000			12,000
Total non-operating revenues	13,950		13,950			13,950
Income (loss) before operating transfers	(58,900)	5,450	(53,450)	(7,275)	2,580	(58,145)
Operating transfers in (out)	32,000		32,000		(2,530)	(29,470)
Net income	(26,900)	5,450	(21,450)	(7,275)	50	(28,675)
Retained earnings/fund balance – July 1	147,260	12,620	159,880	18,965	217,700	396,545
Retained earnings/fund balance – June 30	120,360	18,070	138,430	11,690	217,750	367,870

The notes to the financial statements are an integral part of this statement.

Example E.–School district XYZ: combined statement of changes in financial position; all proprietary fund types and nonexpendable trust funds, for the fiscal year June 30, 19XX

	Proprietary fund types				Fiduciary fund type	Totals (memorandum only)
	Enterprise funds			Internal service	Nonexpendable trust	
	Food service	Bookstore	Total			
Sources of working capital:						
Operations:						
Net income		$5,450	$5,450		$50	$5,500
Items not requiring (providing) working capital: depreciation	$4,890	180	5,070	$2,600		7,670
Sale of fixed assets	40,120		40,120	6,800		46,920
Total sources of working capital	(45,010)	5,630	(50,640)	9,400	50	(60,090)
Uses of working capital:						
Operations:						
Net loss	26,900		26,900	7,275		34,175
Acquisition of fixed assets	16,600		16,600			16,600
Total uses of working capital	43,500		43,500	7,275		50,775
Net increase (decrease) in working capital	1,510	5,630	7,140	2,125	50	9,315
Elements of net increase (decrease) in working capital						
Cash	41,830	17,630	59,460	(2,835)	(15,950)	40,675
Investments					19,000	19,000
Interfund receivables	1,000		1,000	3,000	(3,000)	1,000
Other receivables	3,900		3,900			3,900
Inventories	(41,900)	(12,000)	(53,900)	(6,400)		(60,300)
Prepaid expenses	580		580			580
Interfund payables				8,000		8,000
Other payables	(14,210)		(14,210)	5,000		(9,210)
Contracts payable	12,800		12,800			12,800
Accrued expenses	(2,280)		(2,280)	(4,260)		(6,540)
Payroll deductions and withholdings	(210)		(210)	(380)		(590)
Net increase (decrease) in working capital	1,510	5,630	7,140	2,125	50	9,315

Example F.–Notes to Financial Statements

The notes to the financial statements are intended to communicate information not readily apparent from the financial statements. This information is necessary for a fair presentation of financial position and results of operations. Notes are required to make the financial statements clear and understandable. Specific notes will vary from LEA to LEA, depending upon the individual circumstances. Therefore sample notes are not provided. Rather, a list of items has been developed that should be considered for inclusion in the notes. The list includes, but is not limited to:

- summary of significant accounting policies;
- property taxes;
- long-term debt;
- fixed assets;
- pensions;
- fund deficits;
- statutory violations;
- commitments;
- litigation;
- contingent liabilities;
- subsequent events.

Appendix B

Minimum Classifications Essential for Federal Reporting

This appendix lists dimensions and categories from the tables in chapter 3 that are essential to an LEA in meeting most of the major Federal reporting requirements as of the date of this publication. Included here are codes needed to prepare the Federal reports. The codes, of course, will change as new reporting requirements are issued.

This minimum list of accounts includes only a few of the dimensions available to describe expenditures, and also only a limited number of the categories provided within those dimensions. All other categories and dimensions described in chapter 3 are available for the optional use of SEA's and LEA's.

The dimensions are listed in this appendix in the following order:

	Fund
Expenditures	Program Function Object Project/Reporting
Revenues	Revenue Source
Balance Sheet	Balance Sheet Accounts

The following Federal reports and report series were used in compiling this list of essential classifications. The list is cross-referenced by number to the report or reports requiring each particular classification.

(1) Common Core of Data
  a. Part VIII: Revenues and Expenditures for Public Elementary and Secondary Education (State aggregate data); NCES Form 2350-6, 9/78; OMB No. 51R-1227.
  b. Part II: Fall Estimates for School Year 19XX-XX (State aggregate data); NCES Form 2350-9, 3/78; OMB 51-R702.
  c. Part IX: Miscellaneous State Aggregates for School Year 19XX-XX; NCES Form 2350-11, 9/78; OMB No. 51R-1227.
(2) 197X Survey of Local Government Finances–School Systems; Bureau of the Census, Form F-33B, undated.
(3) Data Collection Required by Section 437, General Education Provision Act, as amended by Sec. 512, P.L. 93-380, P.L. 94-273 and P.L 94-274.
(4) Vocational Education Data System, Financial Status Report, Part B; Status of Funds–Instructional Expenditures by Instructional Area; NCES 2404-2; OMB No. 51-R1258.

Most other reports required of LEA's, either directly or through a consolidated report of their State agency, utilize the standard form HEW-601T; OMB No. 80-80180.[1] In these cases, there are few additional reporting classifications generated. Where there are classifications included in the list below which appear exclusively on the 601T, the popular name of the program generating that requirement is referenced.

Certain other account classification requirements are generated by Federal regulation, rather than by a specific reporting requirement. For example, food service expenditures must be classified by the major food service program categories. In these cases, the identifying number of the applicable Federal regulation is referenced.

The minimum classifications the LEA bookkeeping system must use to comply with current Federal reporting requirements are:

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[1] As specified in Office of Management and Budget Circular A-102, Attachment H, revised.

Fund

Code	*Fund Type*	*Reference(s)*
3	Capital Project Funds	(2)
4	Debt Service Funds	(2)

Expenditures

Program Dimension

Code	*Account Title*	*Reference(s)*
100	Regular Programs	(1)b, (2)
200	Special Programs	(1)b, (2) 45CFR 121a.183
211	Educable Mentally Retarded	(3)
212	Trainable Mentally Retarded	(3)
221	Hard of Hearing	(3)
222	Deaf	(3)
223	Deaf-Blind	(3)
224	Visually Handicapped	(3)
225	Speech Impaired	(3)
226	Crippled	(3)
227	Other Health Impaired	(3)
230	Emotionally Disturbed	(3)
240	Learning Disabled	(3)
300	Vocational Programs	(1)b, (2) 45CFR 121a.183
310	Agriculture	(4)
320	Distributive Education	(4)
330	Health Occupations	(4)
340	Home Economics	
341	Occupational	(4)
342	Consumer and Homemaking	(4)
350	Industrial Arts	(4)
360	Office Occupations	(4)
370	Technical Education	(4)
380	Trades and Industrial Occupations	(4)
390	Other Vocational Programs	(4)
400	Other Instructional Programs–Elementary/Secondary	(1)a, b, (2)
500	Nonpublic School Programs	(1)b, c
600	Adult/Continuing Education Programs	(1)b, (2)
700	Community/Junior College Education Programs	(1)b, (2)
800	Community Services Programs	(1)b, (2)

Code	*Account Title*	*Reference(s)*
900	Enterprise Programs	(1)b, c
910	Food Services	(1)a, (2), USDA FNS(CN) 796-1

Function Dimension

Code	*Account Title*	*Reference(s)*
1000	Instruction	45CFR 121a.183, (1)a, b, c(3), ESEA IV-B
2000	Support Services	45CFR 121a.183, (1)a, (3)
2100	Support Services–Students	(2)
2110	Attendance and Social Work Services	(1)a,
2120	Guidance Services	ESEA IV-B
2123	Appraisal Services	ESEA IV-B
2130	Health Services	(1)a,
2200	Support Services–Instructional Staff	(2)
2213	Instructional Staff Training Services	(3)
2220	Educational Media Services	(1)a, ESEA IV-B
2222	School Library Services	(1)c,
2300	Support Services–General Administration	(2)
2400	Support Services–School Administration	(1)a, (2)
2500	Support Services–Business	(1)b, (2)
2600	Operation and Maintenance of Plant Services	(1)a, (2)
2700	Student Transportation Services	(1)a, (2)
2800	Support Services–Central	(2)
2900	Other Support Services	(2)
4000	Facilities Acquisition and Construction Services	(1)b, (2)
4100	Site Acquisition and Development Services	(2)
4300	Architecture and Engineering Services	(1)c, (2)
4400	Educational Specifications Development Services	(1)c, (2)
4500	Building Acquisition and Construction Services	(1)c, (2)

Code	*Account Title*	*Reference(s)*
4600	Building Improvements Services	(1)c, (2)
4900	Other Facilities Acquisition and Construction Services	(2)
5100	Debt Service	(1)b, (2)

Object Dimension

Code	*Account Title*	*Reference(s)*
100	Personal Services–Salaries	(1)b, (2)
200	Personal Services–Employee Benefits	(1)a, (2)
220	Social Security Contributions	(1)c
230	Retirement Contributions	(1)c
440	Rentals	(2)
511	Student Transportation from Other LEA's Within the State	(1)a, (2)
512	Student Transportation from Other LEA's Outside the State	(1)a, (2)
520	Insurance, Other than Employee Benefits	(2)
561	Tuition to Other LEA's Within the State	(1)a, (2)
562	Tuition to Other LEA's Outside the State	(1)a, (2)
592	Services Purchased from Another LEA Within the State	(1)a, (2)
593	Services Purchased from Another LEA Outside the State	(1)a, (2)
610	General Supplies	(1)c, ESEA IV-B
621	Natural Gas	*
622	Electricity	*
623	Bottled Gas	*
624	Oil	*
625	Coal	*
626	Gasoline	*
630	Food	USDA-FNS(CN) 796-1
640	Books and Periodicals	(1)c, ESEA IV-B
710	Land and Improvements	(1)c,
730	Equipment	(1)b, (2)

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*May become a requirement.

Code	*Account Title*	*Reference(s)*
732	Vehicles	(1)c,
733	Furniture and Fixtures	(1)c,
739	Other Equipment	(1)c, ESEA IV-B
740	Depreciation	(1)a, USDA-FNS(CN) 796-1
830	Interest	(1)b, c(2)
910	Redemption of Principal	(1)b, c
920	Housing Authority Obligations	(1)b, c, (2)
930	Fund Transfers	(1)a, (2)

Project/Reporting Dimension

No specific codes are prescribed within this dimension. However, there are a number of Federal programs specifically requiring reporting of expenditures. These include, but are not limited to:

Program	*Reference(s)*
• Adult Education Act–Title III	(3)
• Elementary/Secondary Education Act–All Titles	(1)a,
Title I–All	(1)a,
– Title I-B	(3)
– Title I-C	(3)
– Title I, Migrant	(3)
– Title I, Handicapped	45CFR 121a.183, (3)
Title IVB	(1)a, ESEA IV-B (3)
Title IV-C	(1)a, (3)
Title VII	45CFR 121a.183
• Education of the Handicapped Act–All Titles	
EHA, Title VI-B	(3), 45CFR 121a.183
• Vocational Education Act	VEDS
Title I, Part B	(3)
Title I, Part B, special needs	(3)
Title I, Part C	(3)
Title I, Part D	(3)
Title I, Part F	(3)
Title I, Part G	(3)
Title I, Part H	(3)

Revenues

Revenue Account Dimension

Code	*Account Title*	*Reference(s)*
1000	Revenue from Local Sources	(1)a, b

Code	*Account Title*	*Reference(s)*
1100	Taxes Levied/Assessed by the LEA	(2)
1110	Ad Valorem Taxes	(1)a, (2)
1200	Revenue from Local Governmental Units Other than LEA's	(2)
1210	Ad Valorem Taxes	(1)a, (2)
1300	Tuition	(1)a, (2)
1310	Tuition from Individuals	(1)a, (2)
1320	Tuition from Other LEA's Within the State	(1)a, (2)
1330	Tuition from Other LEA's Outside the State	(1)a, (2)
1400	Transportation Fees	(1)a, (2)
1410	Transportation Fees from Individuals	(1)a, (2)
1420	Transportation Fees from Other LEA's Within the State	(1)a, (2)
1430	Transportation Fees from Other LEA's Outside the State	(1)a, (2)
1500	Earnings on Investments	(2)
1600	Food Services	(1)a, b, (2)
1610	Daily Sales–Reimbursable Programs	USDA-FNS(CN) 796-1
1611	Daily Sales–School Lunch Program	USDA-FNS(CN) 796-1
1612	Daily Sales–School Breakfast Program	USDA-FNS(CN) 796-1
1613	Daily Sales–Special Milk Program	USDA-FNS(CN) 796-1
1620	Daily Sales–Non-Reimbursable Programs	USDA-FNS(CN) 796-1
1700	Student Activities	(1)b, (2)
1800	Community Services Activities	(2)
1900	Other Revenue from Local Sources	(2)
1920	Contributions and Donations from Private Sources	(1)b
1940	Textbook Sales and Rentals	(2)
1951	Services Provided Other LEA's Within the State	(1)a, (2)
1952	Services Provided Other LEA's Outside the State	(1)a, (2)
1960	Service Provided Other Local Governmental Units	Curr. Exp.
1970	Services Provided Other Funds	Curr. Exp.
2000	Revenue from Intermediate Sources	(1)a, b

Code	*Account Title*	*Reference(s)*
3000	Revenue from State Sources	(1)b
3100	Unrestricted Grants-in-Aid	(1)a, (2)
3200	Restricted Grants-in-Aid	(1)a, (2)
–	State Aid to Child Nutrition Program	USDA-FNS(CN) 796-1
–	State Vocational Aid	VEDS
3900	Revenue for/on behalf of the LEA	(1)b
4000	Revenue from Federal Sources	(1)a, b
4100	Unrestricted Grants-in-Aid Received Directly from the Federal Government	(2)
4200	Unrestricted Grants-in-Aid Received from the Federal Government Through the State	(2)
4300	Restricted Grants-in-Aid Received Directly from the Federal Government	(2)
4330	Vocational Programs	(1)a
4370	Desegregation Programs	(1)a
4390	Impact Aid, Disaster Assistance	(1)a, (2)
	Impact Aid, Construction	(1)a, (2)
4500	Restricted Grants-in-Aid Received from the Federal Government Through the State	(2)
4511-4515	ESEA, Title I	(1)a, (2)
4516-4519	ESEA, Other Titles	(1)a, (2)
4530	Vocational Education Act	(1)a, (2)
4550	Child Nutrition Program	(1)a, (2)
	School Lunch–Regular	USDA-FNS(CN) 796-1
	School Lunch–Reduced	USDA-FNS(CN) 796-1
	School Lunch–Free	USDA-FNS(CN) 796-1
	School Breakfast	USDA-FNS(CN) 796-1
	Special Milk	USDA-FNS(CN) 796-1
	Non-Food Assistance	USDA-FNS(CN) 796-1
	Payments in Lieu of Commodities	USDA-FNS(CN) 796-1
	Donated Commodities	USDA-FNS(CN) 796-1, (1)a, (2)
4820	Impact Aid	(1)a, (3)
4900	Revenue for/on Behalf of the LEA	(1)b
5000	Other Sources of Funds	(1)a, b

Balance Sheet

Balance Sheet Accounts

Code	*Account Title*	*Reference(s)*
101-104	Cash	USDA-FNS(CN) 796-1, (2)
111-115	Investments	(2)
141	Intergovernmental Accounts Receivable	USDA-FNS(CN) 796-1
153	Other Accounts Receivable	USDA-FNS(CN) 796-1
171	Inventories for Consumption	USDA-FNS(CN) 796-1
181	Prepaid Expenses	USDA-FNS(CN) 796-1
241-242	Machinery and Equipment, with Accumulated Depreciation	USDA-FNS(CN) 796-1
421	Accounts Payable	USDA-FNS(CN) 796-1
431-433	Contracts Payable	USDA-FNS(CN) 796-1
441	Matured Bonds Payable	(2)
442	Bonds Payable (current)	(2)
451	Loans Payable (current)	(2)
455	Interest Payable	(2)
461	Accrued Salaries and Benefits	USDA-FNS(CN) 796-1
471	Payroll Deductions and Withholdings	USDA-FNS(CN) 796-1
481	Deferred Revenues	USDA-FNS(CN) 796-1
511	Bonds Payable (Long-Term)	(2)
521	Loans Payable (Long-Term)	(2)

Appendix C

Cash-Basis/Single-Entry Accounts

Cash-Basis Accounts

For States and LEA's using the cash basis of accounting, very few changes are required to the account classifications included in chapter 3. Under cash-basis accounting, an LEA would use all applicable revenue and expenditure classifications included in chapter 3. The only difference from accrual accounting would be the timing of the recording of the revenue and expenditure transactions. Under cash-basis accounting, revenue is recorded when the cash is received and expenditures are recorded at the time cash is disbursed.

Many of the balance sheet accounts would be eliminated under cash-basis accounting. For simplicity, the most commonly used balance sheet accounts used in cash-basis accounting are listed.

Cash-Basis Balance Sheet Accounts

Current Assets

101	Cash in Bank
102	Cash on Hand
103	Petty Cash
104	Change Cash
105	Cash With Fiscal Agent
111	Investments
131	Interfund Loans Receivable
171	Inventories for Consumption
172	Inventories for Resale
199	Other Current Assets

Fixed Assets

211	Sites
221	Site Improvements
231	Buildings and Building Improvements
241	Machinery and Equipment
251	Construction in Progress

Budgeting Accounts (Interim Statements Only)

301	Estimated Revenues
302	Revenues

Current Liabilities

401	Interfund Loans Payable
442	Bonds Payable
451	Loans Payable
471	Payroll Deductions and Withholding
481	Deferred Revenues

Long-Term Liabilities

511	Bonds Payable
521	Loans Payable

Budgeting Accounts (Interim Statements Only)

601	Appropriations
602	Expenditures
603	Encumbrances

Fund Equity

721	Contributed Capital
730	Reserved-Retained Earnings
740	Unreserved-Retained Earnings
751	Reserve for Inventories
753	Reserve for Encumbrances
760	Reserved-Fund Balance
770	Unreserved Fund Balance

This list is not intended to be all inclusive; therefore, the SEA's and LEA's may add or delete accounts as appropriate.

Single-Entry Accounts

For those States and LEA's utilizing a double-entry system, the revenue and expenditure classifications and balance sheet codes may be used as illustrated in chapter 3. Since no balance sheet accounts are used for single-entry systems, additional receipt and disbursement accounts must be added to the revenue and expenditure classifications. The additional accounts would include:

Receipts	*Disbursements*
Sale of investments	Purchase of Investments
Interfund loans	Interfund loans
Interfund loan repayments	Interfund loan repayments

Appendix D

Supplies and Equipment

Handbook II, Revised, provided a list of several hundred items commonly used by LEA's, identifying each as supply or equipment. Rather than present a list, another NCES document, *Handbook III, Revised,* offers a set of guidelines for distinguishing supplies and equipment. *Financial Accounting* has adopted this latter technique. Accordingly, this appendix discusses the importance of distinguishing between supplies and equipment and suggests criteria for making that decision. The majority of this appendix is taken directly from *Handbook III, Revised.*

Reasons for Distinguishing Between Supplies and Equipment

Education agencies have found it useful to distinguish between supplies and equipment for several reasons:

- The distinction may assist in deciding how to control or keep track of an item. For example, some funding programs require that all equipment items be inventoried annually. At the same time, many LEA's will inventory certain items, regardless of whether they are equipment or whether they are required by law to do so;
- The distinction may bear on insurance decisions. Supplies and movable equipment are usually insured as part of the contents of buildings, while built-in equipment is usually insured as part of the structure;
- The distinction is important in identifying the funds with which to purchase a given item. For example, some funds, such as bond funds, typically cannot be used to purchase supplies, while other funds might exclude the purchase of equipment;
- The distinction can affect calculations of cost of operations and cost per student. While most LEA's include expenditures for supplies in calculating current operating costs, many LEA's treat equipment differently. Some include all expenditures for replacement equipment in the current operating cost total, excluding the cost of new and additional equipment. Others prorate the cost of all equipment over several years. In both cases, the incorrect classification of supplies or equipment items can affect the resulting cost calculations;
- The distinction can affect the amount of State or Federal aid allocated to an LEA. Several funding sources use per-student costs as part of their funding formula (see the preceding paragraph). Most funding programs limit the ways in which their funds may be spent, sometimes excluding either supplies or equipment from the list of eligible purchases.

An LEA can take two basic approaches to distinguish between suppiies and equipment in the decision-making situations just mentioned: (1) adopt a predetermined list of items, classifying each entry as either a supply or an item of equipment; or (2) adopt a set of criteria to be used in making its own classification of supply and equipment items. Each of these approaches is discussed in the sections which follow.

The Disadvantages of a Supply/Equipment List

Several NCES publications have provided detailed lists of material items used in LEA operations, identifying each entry as either a supply or equipment item. These lists have been helpful to many users, but they have at least four inherent drawbacks:

1. Various State and Federal aid programs offer supply/equipment categorizations which conflict with one another;
2. Technological and philosophical changes in education continue to occur at an ever-increasing pace. It is impractical to list and classify the thousands of materials and devices used in LEA's today, particularly in the vocational education curricula. Therefore, without periodic updates, supply/equipment lists quickly become obsolete;
3. Classifications of certain items change, due to changes in price or technology. For example, most LEA's classified hand-held, mini-calculators as equipment several years ago when they cost over $100. Now that the price of these items has dropped to the $5 to $25

range, some LEA's are changing the classification of these items to supplies;

4. Users tend to treat the lists as comprehensive and up-to-date, even when warned otherwise.

For these reasons, developing a universally applicable and easily updatable supply/equipment list is impractical. Instead of presenting a list which might raise as many issues as it would propose to resolve, this guide suggests that the distinction between supplies and equipment can better be made through consistent, Statewide application of uniform criteria. If an LEA wishes to supplement these criteria with a list, *Handbook II, Revised, 1973*, provides the most current one.

Criteria for Distinguishing Supply and Equipment Items

* Some Federal, State, and local laws and regulations, usually in the form of funding programs, present conflicting criteria for distinguishing between supplies and equipment. The criteria below are based on a combination of the most practical guidelines from these sources. Unless otherwise bound by Federal, State, or local law, LEA's should use these criteria in their supply/equipment classification decisions. In cases where the distinction is unclear, the LEA, as always, must apply reason and good judgement in making its decision.

Equipment Items

An equipment item is any instrument, machine, apparatus, or set of articles which meets all of the following criteria:

1. It retains its original shape, appearance, and character with use;
2. It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
3. It is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit;
4. Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for at least one year.

Supply Items

An item should be classified as a supply if it does not meet *all* the stated equipment criteria.

Distinguishing Between Built-In and Movable Equipment

Should an LEA find it useful to classify certain equipment into built-in and movable categories, and unless otherwise bound by Federal, State, or local law, the following criteria should be used.

An equipment item is *built-in* if:

1. It is an integral part of a building; that is, it is permanently fastened to the building, functions as part of the building, and causes appreciable damage to the building if it is removed; or
2. It is permanently attached to a site and functions as part of the site (except buildings or other structures).

Built-in equipment may be incorporated into a building at the time the building is erected or at a later date. Built-in equipment is sometimes referred to as fixed equipment.

Movable equipment consists of items that:

1. Are transportable from one location to another without appreciable damage or change to the location from which they are removed or to the location where they are installed; and
2. Do not function as integral parts of the building or site and are not permanently fastened or attached to the building or site.

A piece of equipment that is simply bolted or screwed to the floor, such as a heavy lathe or desk, and that can be moved as a unit once these fasteners have been removed, is "movable equipment." The term *movable* refers to permanency of installation and not to size or weight.

Selecting the Level of Control for Supplies and Equipment

LEA managers carry great responsibilities for stewardship of the funds and property of the LEA. They are responsible for tracking and periodically reporting on the condition of these financial and physical resources. A major decision in devising methods for carrying out these responsibilities is selecting the level of control to be applied to various kinds of supplies and equipment.

The level of control applied to any supply or equipment item can be thought of as the amount of time and effort spent in keeping track of the item and the amount of information kept about the condition and

UPDATE

JULY 1990

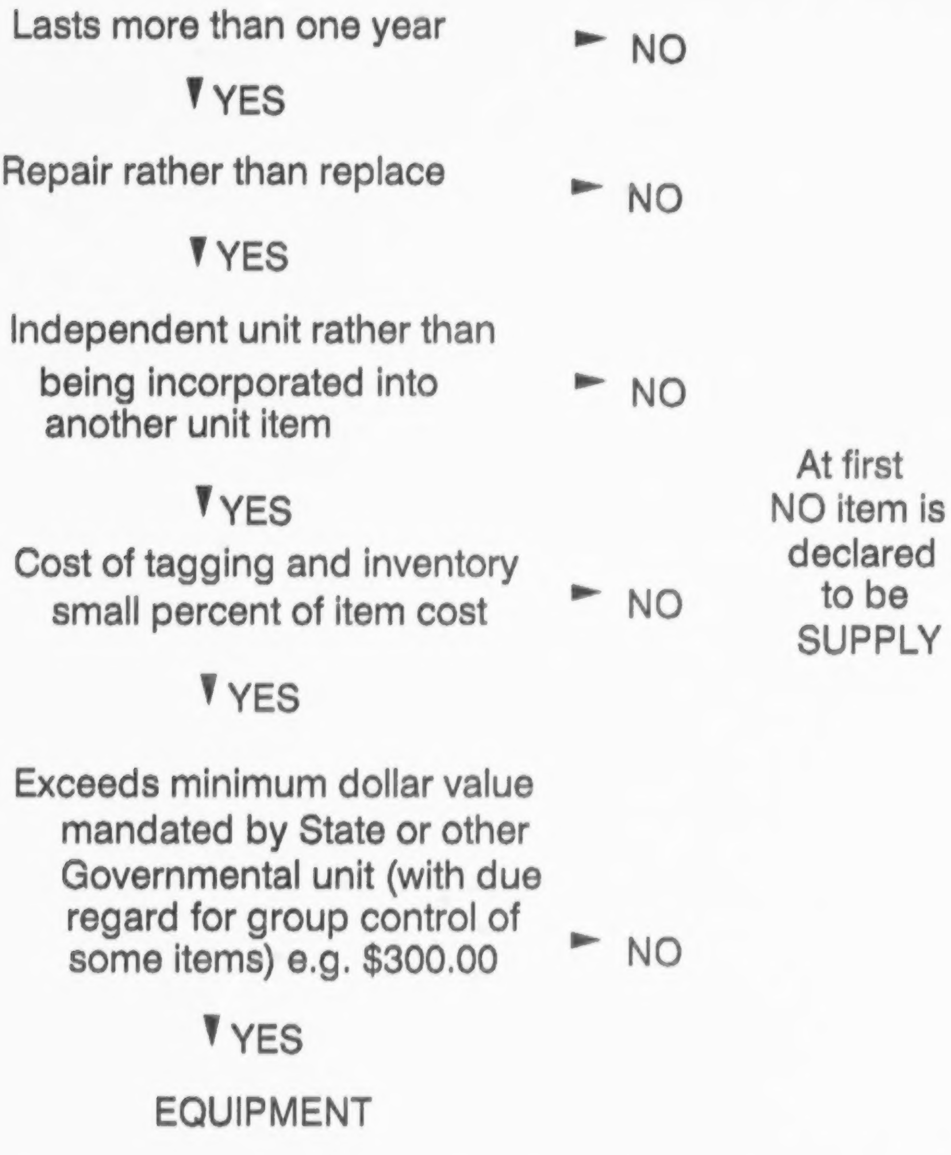
DELETE "CRITERIA FOR DISTINGUISHING SUPPLY AND EQUIPMENT" (PP. 144-145) AND REPLACE

At one time, the Federal accounting handbook contained lists of both supplies and equipment. Such lists can never be comprehensive or exhaustive, and quickly become outdated. In an effort to resolve the need to differentiate supplies and equipment without exhaustive lists, NCES has proposed a set of criteria for distinguishing equipment from supply items, listed in priority order. (See Figure page 144b.) At the first "NO", the item is declared to be a supply, not equipment.

UPDATE JULY 1990

CRITERIA FOR DISTINGUISHING EQUIPMENT FROM SUPPLY ITEMS

(Listed in Priority Order)


Lasts more than one year
NO
YES
Repair rather than replace
NO
YES
Independent unit rather than being incorporated into another unit item
NO
YES
Cost of tagging and inventory small percent of item cost
NO
YES
Exceeds minimum dollar value mandated by State or other Governmental unit (with due regard for group control of some items) e.g. $300.00
NO
YES
EQUIPMENT
At first NO item is declared to be SUPPLY

This diagram was conceived by James Bliss, Ph. D., Assistant Superintendent for Business Services Grandview Consolidated School District, Grandview, Missouri, and Stuart Graf, CPA, of the American Institute for Certified Public Accountants (AICPA).

whereabouts of the item. The level of control applied to a supply or equipment item usually falls into one of three broad categories:

1. *Little or no control after purchase.* Items in this category are of such little value that the cost of implementing procedures to safeguard them, monitor their use, or track their location and condition are not justifiable. Such items might include staplers and wastebaskets;
2. *Group control.* Items in this category are of little individual value, but taken as a group, are valuable enough to justify the cost of providing some type of control over their safety, use, location and condition. Such items might include chairs and school desks;
3. *Individual control.* Items in this category are of sufficient value to justify applying control measures to each individual item. Such items usually include all relatively expensive pieces of equipment, although the minimum value of such equipment may vary with the LEA.

Selecting the level of control to apply to an item is a straightforward process. Often, certain kinds of control are required by law or standard practice. For example, a Federal funding program might require that all items purchased from these funds be inventoried and reported on periodically. Similarly, some funding programs require that all items of a certain minimum value must be inventoried and reported on periodically. On the other hand, the LEA may decide on its own to inventory certain kinds of items, regardless of their funding source, simply because these items or the inventory information are valuable to the LEA. The level of control can range from an annual inventory to daily check-out from and return to a central storage room or station. When applied to a given item the level should be based on the relative importance of the item to the overall operation of the LEA, and is usually in direct proportion to the item's purchase, replacement, or repair cost.

It is important to note that deciding how to control an item is relevant not only to equipment but also to certain stocks of supplies. For example, any large stock of supplies–such as instruction supplies, food, or custodial supplies–should be periodically counted and checked for damage, deterioration, and pilferage. Thus, the level of control issue applies to all tangible goods of any significant value to the LEA.

Appendix E

* Federal Revenue Sources

The purpose of this listing of Federal revenue sources is to provide the LEA the opportunity to expand the revenue classifications included in chapter 3. These revenue classifications are included to help LEA's update their classifications, since Federal revenue sources are constantly changing. This listing is not intended to be all-inclusive, but is the most current available at the date of publication.

Code	*Program*	*Federal program*[1] *catalog number*
4000	Revenue from Federal Sources	
4100	Unrestricted Grants-In-Aid Direct from the Federal Government	
	Wildlife Refuge	
4200	Unrestricted Grants-In-Aid from the Federal Government Through the State	
	Flood Control	12.406
	Mineral Leases	15.207
	Federal Grazing Payments	10.408, 15.206
4300	Restricted Grants-In-Aid Direct from the Federal Government	
4310	Elementary/Secondary Education Programs	
	Alcohol and Drug Abuse	13.420
	Bilingual Education	13.403
	Community Education	13.563
	Consumer Education	13.564
	Education and the Arts	13.566
	Educational TV Programming	13.541
	Environmental Education	13.522
	Follow Through	13.433
	Gifted and Talented	13.562
	Head Start	13.600
	Metric Education	13.561
	Right to Read	13.533
	Teacher Corps	13.489
	Women's Educational Equity	13.565
4330	Vocational Programs	
	VEA Part C–Research	13.498
	VEA Part D–Exemplary	13.502
	VEA Part I–Curriculum	13.496

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[1] *Catalog of Federal Domestic Assistance*, U.S. Government Printing Office, Washington, D.C. 20402.

UPDATE

JULY 1990

DELETE APPENDIX E (PP 147-150) AND REPLACE

Appendix E

Federal Revenue Sources

The title, nature, name, and appropriation for many Federal education programs is subject to change by Congressional action. Over half of the federal education aid programs appearing in the 1980 Federal accounting handbook had either been combined into block grants or had been discontinued as of this writing (1989).

In order to allow for the possibility of annual changes in Federal education aid programs, the listing of Federal education aid programs will not appear in this accounting handbook. Rather, respondents are urged to become familiar with an annual publication by the Office of Management and Budget (OMB), *19XX Catalog of Federal Domestic Assistance*, which contains program descriptions of every Federal aid program, including those by the U.S. Department of Education, and contains uniform code numbers for each program. The Update to the 1988 Catalog contains 1,117 assistance programs administered by 51 Federal agencies, classifying the programs into 15 types of assistance. The General Services Administration distributes a limited number of free copies of the Catalog to National, State and local offices. Each Chief State School Officer receives such a copy. The Catalog is also provided to other agencies of State and local governments. Only private individuals must purchase a copy from the Government Printing Office, at a cost of $38.

The extensive nature of the Catalog has been recognized as an obstacle to its use. To assist those who wish to utilize the catalog, a computerized system exists to obtain specific queries regarding domestic assistance programs. States have designated access points where searches may be requested. For information on how to access the Federal Assistance Programs Retrieval System (FAPRS), call (202) 453-4126, or write the Federal Domestic Assistance Catalog Staff, General Services Administration, 300 7th Street, S.W., Washington, D.C. 20407.

Code	*Program*	*Federal program*[1] *catalog number*
4340	Employment Programs	
	Career Education	13.554
	Neighborhood Youth Corps	–
4350	Handicapped Programs	
	EHA VI-C Early Education for Handicapped	13.444
	EHA VI-C Severely Handicapped	13.568
	EHA VI-C Deaf-Blind Centers	13.445
	EHA VI-E Research	13.443
	EHA VI-F Media Services for Handicapped	13.446
	EHA VI-G Specific Learning Disabilities	13.520
	Development Disabilities	13.632
	Removal of Architectural Barriers	–
4360	Indian Education Programs	
	Basic Grants (Part A)	13.534
	Special Programs and Projects	13.535
	Assistance for Non-Federal LEA's	15.130
4370	Desegregation Programs	
	Civil Rights Technical Assistance	13.405
	Community Action Program	49.002
	Emergency School Assistance Programs	13.525 through 13.532
	Magnet Schools	13.589
4390	Other Restricted Grants-In-Aid Direct from the Federal Government	
	Impact Aid–Disaster Assistance (PL 81-874)	13.478
	Impact Aid–Construction (PL 81-815)	13.477
4500	Restricted Grants-In-Aid from the Federal Government Through the State	
4510	Elementary and Secondary (ESEA)	
	ESEA Title I–Compensatory (Part A)	13.428
	ESEA Title I–Compensatory (Part B)	13.512
	ESEA Title I–Handicapped	13.427
	ESEA Title I–Concentration	13.428
	ESEA Title I–Migrant	13.429
	ESEA Title IVB–Learning Resources	13.570
	ESEA Title IVC–Innovative	13.571
	ESEA Title IVD–Guidance Counseling and Testing	–
	ESEA Title VII–Bilingual	13.403
	ESEA Title IX–Ethnic Heritage	13.549
	ESEA Title IX–Achievement Testing Assistance	–

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[1] *Catalog of Federal Domestic Assistance*, U.S. Government Printing Office, Washington, D.C. 20402.

Code	*Program*	*Federal program*[1] *catalog number*
4530	Vocational Education	
	Part B–Basic	13.493
	Part B–Disadvantaged (102(b))	13.499
	Part B–Handicapped	13.493
	Part C–Research	13.498
	Part D–Exemplary	13.502
	Part F–Consumer and Homemaking	13.494
	Part G–Cooperative	13.495
	Part H–Workstudy	13.501
	Part I–Curriculum	13.496
	Bilingual Training	13.558, 13.586, 13.587
4540	Adult Education	13.400
4550	Child Nutrition Program	
	School Lunch–Regular	10.555
	School Lunch–Reduced	10.555
	School Lunch–Free	10.555
	School Breakfast	10.553
	Special Milk	10.556
	Non-Food Assistance	10.554
	Payments in Lieu of Commodities	10.550
	Food Commodities	10.550
4560	Handicapped Programs	
	EHA VI-B Basic Aid	13.449
	EHA VI-C Early Education	13.444
	EHA VI-C Resource Centers	13.450
	EHA VI-C Severely Handicapped	13.568
	EHA VI-F Media Services for Handicapped	13.446
	EHA VI-C Innovation and Development	13.445
	EHA VI-D Handicapped Personnel Preparation	13.451
	EHA VI-D Teacher Recruitment	13.452
4690	Other Restricted Grants-In-Aid from the Federal Government Through the State	
	Alcohol and Drug Abuse	13.420
	Appalachian Development	23.012
	Career Education	13.554
	CETA (Balance-of-State Prime Sponsor)	17.232
	Community Education	13.563
	Consumer Education	13.564
	Education in the Arts	13.566
	Gifted and Talented	13.562
	Metric Education	13.561
	NIE Dissemination Grants	13.950
	Right to Read	13.533

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[1] *Catalog of Federal Domestic Assistance*, U.S. Government Printing Office, Washington, D.C. 20402.

Code	*Program*	*Federal program*[1] *catalog number*
4700	Grants-In-Aid from the Federal Government Through Other Agencies	
	Revenue Sharing	–
	CETA (Prime Sponsor)	17.232
4800	Revenue in Lieu of Taxes	
	Federal Forest Reserve	–
	Impact Aid (PL 874)	13.478
	TVA Revenue	–
4900	Revenue for/on Behalf of the LEA	
4910	Direct from the Federal Government	
4920	From the Federal Government Through the State	

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[1] *Catalog of Federal Domestic Assistance*, U.S. Government Printing Office, Washington, D.C. 20402.

Appendix F

Nonpublic School Chart of Accounts Crosswalk

For those schools and school districts (other than public) using the chart of accounts in *Accounting For Independent Schools,*[1] this account crosswalk is provided to indicate how the chart of accounts crosswalks to the accounts included in chapter 3. On the left hand side of each page are the account numbers and account headings for each account included in *Accounting For Independent Schools.* The right hand side of each page includes the appropriate account in this guide that best describes the similar account in *Accounting For Independent Schools.* This crosswalk is not intended to be all-inclusive, and the crosswalk examples may not apply to all independent schools.

Fund (First Digit)

Accounting for Independent Schools (A.I.S.)	*Financial Accounting*
1 Operating–unrestricted	1 General
2 Operating–restricted	2 Special revenue
3 Endowment–unrestricted	7 Trust and agency
4 Endowment–restricted	7 Trust and agency
5 Plant–unexpended	2 Special revenue 3 Capital projects 4 Debt service
6 Plant–investment in plant	8 General fixed assets account group 9 Long-term debt account group
7 Annuity and life income	7 Trust and agency
8 Loan	7 Trust and agency
9 Other	Not available

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[1] *Accounting For Independent Schools,* National Association of Independent Schools (NAIS), Boston, Massachusetts, 02109. This information is used by permission of NAIS.

A.I.S. Assets (3rd digit)	**Account**	*Financial Accounting* **Balance Sheet Accounts**
1	Cash	101
2	Investments	111
3	Accounts and notes receivable	151, 153
4	Inventory	171, 172
5	Prepaid expenses and deferred charges	181
6	Land, buildings, and improvements	211, 221, 231, 251
7	Equipment	241
8	Other assets	199
9	Interfund balances–due from	131
Liabilities (3rd digit)		
1	Notes payable–short term	451
2	Accounts payable	421
3	Accrued liabilities–payroll and related	461 and 471
4	Accrued liabilities–other	499
5	Agency funds	499
6	Unearned revenues and deferred credits	481
7	Long-term liabilities	590
8	Other liabilities	499
9	Interfund balances–due to	401
Revenues Earned (3rd and 4th digits)		**Revenue Accounts**
10	Tuition	1300
30	Student Activities	1700
40	Auxiliary Services:	–
41	Room	1790
42	Board	1790
43	Health Services	1790

Revenues Earned (3rd and 4th digits)	Account	Revenue Accounts
44	Student Stores	1720
45	Snack Bar	1790
46	Student Transportation	1400
50	Other Programs:	
51	Summer School	1310, 1990
52	Summer Camps	1990
53	Conferences and Workshops	1790
54	Public Services	1800
70	Dividends and Interest	1500
80	Affiliated Enterprises	1700, 1900
90	Other Income	1900

Gifts Received (3rd digit)		
1	Alumni/ae	1920
2	Parents	1920
3	Trustees	1920
4	Grandparents	1920
5	Friends and Others	1920
6	Corporations	1920
7	Foundations	1920

Expenses Incurred (3rd and 4th digits)		(Program/Function)
10, 20	Instruction:	100, 200, 300, 400/ 1000
25	Chapel	490/1000
26	Athletics	420/1000
27	Library	100/2230

Expenses Incurred (3rd and 4th digits)	**Account**	**(Program/Function)**
28	Student Guidance and Counseling	000/2120
29	Instructional Administration	000/2210
30	Student Activities	400/3000
40	Auxiliary Services:	
42	Food Service	910/3100
43	Health Service	000/2130
44	Student Store	990/3200
45	Snack Bar	990/3200
46	Laundry	990/3200
A.I.S. Expenses Incurred (3rd and 4th digits)		*Financial Accounting* **(Program/Function)**
47	Student Transportation	000/2700
50	Other Programs:	
51	Summer School	490/1000
52	Summer Camps	490/1000
53	Conferences and Workshops	000/2210
54	Public Services	800/3300
60	Operation and Maintenance of Plant:	000/2600
61	Buildings	000/2610
62	Cleaning	000/2610
63	Grounds	000/2620
64	Security	000/2630
65	Vehicles	000/2640
66	Plant Administration and General	000/2650
70	General and Administrative	
71	Head's Office	000/2410
72	Admissions Office	000/2190
73	Business Office	000/2330, 2500

A.I.S. Expenses Incurred (3rd and 4th digits)	Account	*Financial Accounting* (Program/Function)
74	Registrar's Office	000/2125
75	Alumni/ae Office	000/2900
76	Development Office	000/2810
79	General	000/2330
90	Financial Aid	000/2190
Transfers (3rd digit)		
1	Transfers out	000/5200
2	Transfers in	5200

Object (5th and 6th digits)		*Financial Accounting* Object/Job Class
10	Personnel Services	
11	Instruction Salaries	100/2
13	Administration Salaries	100/1
14	Secretarial and clerical salaries	100/5
A.I.S. Object (5th and 6th digits)		***Financial Accounting* Object/Job Class**
15	Other staff salaries	100/2, 3
16	Student assistants' salaries	100/5
17	Dormitory parents or counselors	100/2, 3, 4
19	Estimated value of contributed services	–
20	Employee benefits–taxes and insurance	
21	FICA tax	220
22	Unemployment tax	250
23	Workmen's Compensation	260
24	Medical and hospitalization insurance	210
25	Major medical insurance	210
26	Retirement insurance	230

A.I.S. Object (5th and 6th digits)	Account	*Financial Accounting* Function/Object
27	Life insurance	210
28	Disability insurance	290
29	Other	290
30	Employee Benefits–Other	
31	Grants-in-aid	290
32	Moving expenses	290
33	Pensions paid	230
34-38	Other	290
39	Employee benefits applied (illustrated in Chapter 3)	All/290
40	Materials and Supplies	
41	Supplies used–instructional	1000/610
42	Supplies used–office	2400/610
43	Supplies used–general	All/610
44	Provisions (raw food)	3100/630
45	Cost of merchandise sold	–
46	Estimated value of contributed items	–
50	Plant-related	
51	Electricity	2620/622
52	Fuel	2620/621, 624, 625
53	Water	2620/411
54	Equipment purchases charged to expense	All/730
55	Provision for plant replacement, renewal, and special maintenance	All/470
56	Property taxes	2600/490
57	Equipment rentals	All/442
58	Fire and casualty insurance on property assets	2620/520
60	Information and communications	

A.I.S. Object (5th and 6th digits)	**Account**	*Financial Accounting* **Function/Object**
61	Subscriptions, publications, and reports purchased	All/640
62	Membership dues	2400/810
63	Telephone	2400/530
64	Printing and binding	All/550
65	Postage and shipping	All/530
66	Advertising	All/540
67	Photocopying	All/550
68	Special publications produced	All/590
70	General Expenses	
71	General liability insurance	All/520
72	Interest	All/830
73	Other taxes	All/890
74	Professional fees	All/300
75	Rent expense	All/441
76	Provision for uncollectable accounts	—
77	Travel	All/580
78	Entertainment	All/580
80	Other Expenses	
81	Contracted services	All/300, 400, 500
82	School head's discretionary fund–applies only to discretionary expenditures directly related to school business	2400/890
83	Governing board	2310/890
84	Assemblies and convocations	2490/590
85	Conferences and workshops	2213/580
86	Summer study for faculty	2213/590
87	Sabbatical leave expense	2213/240
88	Commencement expense	2490/890
89	Sundry	All/890

A.I.S. Object (5th and 6th digits)	Account	*Financial Accounting* Function/Object
90	Continuation of Other Expenses	
91	Financial aid–tuition and fees	2190/890
93	Financial aid–incidental expenses	2190/890
94	Prizes and gifts awarded	2190/890

Appendix G

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The National Review Committee (NRC) met, discussed, reviewed and collaborated on the various development phases of this publication. Members of the NRC were:

Organization	**Representative**
American Association of School Administrators	Dr. John Freeman Superintendent Memphis City Schools Memphis, Tennessee
American Education Finance Association	Dr. Allen Odden, Director Education Finance Center Education Commission of the States Denver, Colorado
American Institute of Certified Public Accountants	Mr. Robert H. Kuhn, C.P.A. Partner Ernst & Ernst Chicago, Illinois
Association of School Business Officials of the United States and Canada	Mr. Allen Dye Business Manager Evanston Township High School District Evanston, Illinois
Council of Chief State School Officers; Committee on Education and Information Systems	Mr. Lee Batsel Chief Accountant Management Information Center Texas Education Agency Austin, Texas
Council on American Private Education	Mr. Jack Downing Business Manager National Association of Independent Schools Boston, Massachusetts
Municipal Finance Officers Association	Mr. Richard Hass, C.P.A. Director of Technical Services Municipal Finance Officers Association Chicago, Illinois

Organization	Representative
National School Boards Association	Mr. James Melton Executive Secretary Kentucky School Boards Association Frankfort, Kentucky
Office of Indian Education	Mr. Jerry Waddell Programming, Planning and Analysis Officer Office of Indian Education Programs Washington, D.C.
Local Education Agencies	Mr. Gene Brose, C.P.A. Business Manager Dickinson Public Schools Dickinson, North Dakota
	Mr. Daniel C. Durgin Business Administrator Exeter Supervisory Union No. 16 Exeter, New Hampshire
	Dr. James F. Jeffrey Assistant Superintendent Austin Independent School District Austin, Texas
State Education Agencies	Mr. Richard Cairney Office of the Auditor of State Columbus, Ohio
	Dr. Mark Fox Assistant Superintendent Wyoming Department of Education Cheyenne, Wyoming
	Dr. David A. Morris Florida Department of Education Tallahassee, Florida
	Mr. Stephen Parodi Chief, Local Assistance Bureau California Department of Education Sacramento, California

The following individuals participated in a series of four regional meetings conducted in the spring of 1979. These individuals were nominated by each SEA. The meetings were held in February and March in:

Atlanta, Georgia
Hartford, Connecticut

San Francisco, California
St. Louis, Missouri

Individuals are listed according to title and location at the time of their participation in the project.

Bert Adams
Director, Fiscal Services
Georgia State Department of Education
Atlanta, Georgia

Robert Antonoff
Business Manager
Capital School District
Dover, Delaware

Juan Aragon
Assistant Superintendent for Finance
Taos Municipal Schools
Taos, New Mexico

Arthur Bachelor
Assistant Superintendent, Business Services
Alameda County Schools
Oakland, California

R. V. Ball
Director of Fiscal Services
Tennessee Department of Education
Nashville, Tennessee

Lee H. Batsel
Chief Accountant, Management Information Center
Texas Education Agency
Austin, Texas

Arnold E. Bekemeyer
Business Manager
Affton School District
St. Louis, Missouri

James Benson
Region III, Accounting Coordinator
Minnesota Department of Education
St. Cloud, Minnesota

Alvin Bies
Assistant Director of Statistical Services
South Dakota Department of Education
Pierre, South Dakota

George E. Bissell
Financial Manager–Supplemental Funds
Pittsburgh Board of Education
Pittsburgh, Pennsylvania

James Bliss
Supervisor, School Finance
Missouri Department of Education
Jefferson City, Missouri

Rolland A. Bowers
Associate Dean
College of Education
Oklahoma State University
Stillwater, Oklahoma

Frank Bradley
Department of Municipal Accounting
Topeka, Kansas

Charles Brown
Arkansas Department of Education
Little Rock, Arkansas

Douglas Brown
Consultant
New Hampshire Department of Education
Concord, New Hampshire

William Brown, Jr.
State Supervisor of School Accounts
Delaware Department of Education
Dover, Delaware

J. B. Buren
Assistant Controller
Jefferson County Schools
Louisville, Kentucky

John A. Campbell
Finance Officer
Charlotte-Mecklenburg Board of Education
Charlotte, North Carolina

Joe Cashman, Chief, State Grants
Bureau of Grants Processing
Connecticut Department of Education

Imogene K. Chambers
Assistant Superintendent for Business Affairs
Bartlesville Public Schools
Bartlesville, Oklahoma

Russell Chandler
Assistant to Director
Division of Administration and Finance
Montgomery, Alabama

Mary Jane Ciardella
Accountant
Carson City School District
Carson City, Nevada

Richard Clark
Accountant
Murray City School District
Murray, Utah

David Cleaver
Bureau of Research, Planning and Evaluation
Connecticut Department of Education
Hartford, Connecticut

Melvin Collart
Supervisor–School Finance Services
Washington State Superintendent of Public Instruction
Olympia, Washington

Dennis Costerison, Consultant
Division of School Finance
Indiana Department of Education
Indianapolis, Indiana

Rebecca Delgado
Administrative Assistant–Public School Finance Division
Educational Finance and Cultural Affairs Department
Santa Fe, New Mexico

Rino DiMarco
Specialist, Cost Accounting
Rhode Island Department of Education
Providence, Rhode Island

Don Duell
Business Manager
Englewood Public Schools
Englewood, Colorado

Elaine Earley
Assistant Administrator, Financial Review
Georgia Department of Education
Atlanta, Georgia

Jerald Eggen
Business Manager
Watertown School District
Watertown, South Dakota

Ann Ellis
Georgia Department of Education
Atlanta, Georgia

Lee Engstrom, Assistant Director
Information and Research
North Dakota Department of Education
Bismarck, North Dakota

Guy Ghan
Administration and Finance
Iowa Department of Public Instruction
Des Moines, Iowa

Wayne Glaus
Specialist, Financial Accounting and Auditing
Utah Board of Education
Salt Lake City, Utah

Truett Goatcher
Education Supervisor
Arkansas Department of Education
Little Rock, Arkansas

Donald H. Gress
Consultant–Program Budgeting and Accounting
Iowa Department of Public Instruction
Des Moines, Iowa

Roy Guthrie
Alabama Education Study Commission
Montgomery, Alabama

Dean Hirt
Senior Consultant
Colorado Department of Education
Denver, Colorado

Jan Hiserote
Business Office Supervisor
Coos Bay School District
Coos Bay, Oregon

Ross Hodel
Manager, Finance Section
Illinois Office of Education
Springfield, Illinois

Robert J. Hoffman
Managing Auditing Accountant
Mississippi Department of Audit
Jackson, Mississippi

Victor Honigberg
Office of the Auditor of the State
Columbus, Ohio

Russell A. Horth, Jr.
Bureau of Management Services
New York State Education Department
Albany, New York

Charles H. Howard
Assistant Superintendent for Business Affairs
Decatur City School System
Decatur, Alabama

James Irwin
Director, Business Affairs
Sunnyside Unified School District
Tucson, Arizona

John J. Jenft
Administrative Assistant
Arlington School District
Arlington, Washington

Kenneth L. Johnson
Administrative Assistant
Southwick Public Schools
Southwick, Massachusetts

Lucille B. Johnson
Accountant
Maine Department of Educational and Cultural Services
Augusta, Maine

Phillip T. Kelly
Supervisor, Office of Finance
South Carolina Department of Education
Columbia, South Carolina

Ronald D. Kelton
Senior Consultant, School Finance and Data Services
Colorado Department of Education
Denver, Colorado

Edgar A. Kenney
Business Administrator
Supervisory Union #21
Hampton, New Hampshire

Alton N. Koppang
Director of Finance
North Dakota Department of Public Instruction
Bismarck, North Dakota

Terry Kostoff
Division of School Accounting Services
Harrisburg, Pennsulvania

David Larisey
Administrator, Grants Management
Georgia Department of Education
Atlanta, Georgia

David Lawrence
Specialist, Cost Accounting
Rhode Island Department of Education
Providence, Rhode Island

Rinda Lebo
Administrative Assistant
Vermont Department of Education
Montpelier, Vermont

Ernest Lehr
Auditor
California State Department
Sacramento, California

Richard D. Lewis
Assistant Superintendent
Millard Public Schools
Omaha, Nebraska

Frank Livak
Bureau of Research, Planning and Evaluation
Connecticut Department of Education
Hartford, Connecticut

Rich Lohman
Accountant
Illinois Office of Education
Springfield, Illinois

Donald S. MacTaggert
Financial Consultant
Wisconsin State Department of Public Instruction
Madison, Wisconsin

William Magnotta
Bureau of Grants Processing
Connecticut Department of Education
Hartford, Connecticut

Annette McCall
Bureau of Grants Processing
Connecticut Department of Education
Hartford, Connecticut

H. Thomas McCray
Comptroller/Treasurer
Cabell County Schools
Huntington, West Virginia

Ralph Meyer
Supervisor, Program Control Unit
Michigan Department of Education
Lansing, Michigan

Ron Moir
Director, School Financial Management
Minnesota Department of Education
St. Paul, Minnesota

Willis W. Moore, Jr.
Director of School Finance
West Virginia Department
East Charleston, West Virginia

David A. Morris
Florida Department of Education
Tallahassee, Florida

Ron Moubray
Accounts Examiner
Kentucky Department of Education
Frankfort, Kentucky

Robert Myers
Director of Business Affairs
Pocatello School District
Pocatello, Idaho

Richard Neely
Facilitator
Massachusetts Department of Education
Boston, Massachusetts

Terry Nunn
Accountant
Illinois Office of Education
Springfield, Illinois

James Oszfolk
Chief Auditor
New Jersey Department of Education
Trenton, New Jersey

Kay W. Palmer
Administrator, E.M.I.S.
Nevada Department of Education
Carson City, Nevada

Stephen L. Parodi
Chief, Local Assistance Bureau
California Department of Education
Sacramento, California

Calvin Patterson
Assistant Superintendent for Finance
Fort Smith Public Schools
Fort Smith, Arkansas

Rung Pham
Manager, Federal Grant Accounting
Public Schools of the District
Washington, D.C.

Frank Pinkowski
Director, Office of Evaluation Services
New Jersey Department of Education
Trenton, New Jersey

Anthony V. Pinzone
Assistant Superintendent
Simsbury Public Schools
Simsbury, Connecticut

Richard K. Piper
California Department of Education
Sacramento, California

Warren Post
Administrator, Financial Review Section
Georgia Department of Education
Atlanta, Georgia

John Pyne
Superintendent
Southington Public Schools
Southington, Connecticut

Doug Rexford
Business Manager
Addison Central Supervisory Union
Middlebury, Vermont

Arthur Roberts
Public Schools of the District
Washington, D.C.

Roland Rockwell
Director of School Finance
Wisconsin Department of Public Instruction
Madison, Wisconsin

William Rogers
Assistant Superintendent for Financial Services
Cobb County Board of Education
Marietta, Georgia

Larry Romel
Bureau of Research, Planning and Evaluation
Connecticut Department of Education
Hartford, Connecticut

John J. Ryan
Assistant State Superintendent
Delaware Department of Education
Dover, Delaware

James Salvo
Controller
Beaufort County School District
Beaufort, South Carolina

Frank Sanders, Jr.
Assistant Superintendent
Hammond City Schools
Hammond, Indiana

F. Brent Sandidge
Assistant Superintendent for Administrator
and Finance
Virginia Department of Education

Michael E. Schouest
Director, Management Information Systems
Louisiana Department of Education
Baton Rouge, Louisiana

J. H. Schulte
Department of Municipal Accounting
Topeka, Kansas

Errol J. Smith
Business Administrator
Nebo School District
Spanish Fork, Utah

Joseph J. Smith
Assistant Superintendent for Financial Services
School District of Duval County
Jacksonville, Florida

Norman P. Soucie
Superintendent
School Administrative Districts #23 & 38
Carmel, Maine

Smith Sparks
Administrative Assistant
Division of Administration and Finance
Mississippi Department of Education
Jackson, Mississippi

James L. Spartz
State Director, Finance and School Services Division
Delaware Department of Public Instruction
Dover, Delaware

Janet Sterling
California Department of Education
Sacramento, California

Leonard Sturm
Assistant Controller
Houston Independent School District
Houston, Texas

Gary Swart
Business Manager
Fairbanks North Star Borough School District
Fairbanks, Alaska

Paul F. Swinford
Deputy Superintendent
Valley View Schools
Romerville, Illinois

Dave Tate
Administration Services Officer
Arizona Department of Education
Phoenix, Arizona

Bal K. Thaper
Program Budget Analyst
Division of Finance and Regulatory Services
New Jersey Department of Education
Trenton, New Jersey

William Tindall
Supervisor, Handbook II
Louisiana Department of Education
Baton Rouge, Louisiana

Ronald Torgeson
Director of Management Information and Public Planning and Evaluation
North Dakota Department of Public Instruction
Bismarck, North Dakota

Bill Trupp
Nebraska Department of Education
Lincoln, Nebraska

Leo Turo
Director, Bureau of School Management Services
Massachusetts Department of Education
Boston, Massachusetts

Thomas Vopat
Chief, Bureau of Finance
Idaho Department of Education
Boise, Idaho

William Wade
Deputy Superintendent, Business and Finance
Ann Arbor Public Schools
Ann Arbor, Michigan

Richard J. Walker
Coordinator of Business Affairs
Memphis City Schools
Memphis, Tennessee

David Williams
Accountant
Illinois Office of Education
Springfield, Illinois

Bayes E. Wilson
Assistant Superintendent
Roanoke County School Board
Salem, Virginia

Harry Wolford
Director, Division of Computer Services and Statistical Reports
Ohio Department of Education
Columbus, Ohio

Jerry Wootan
Consultant
Georgia Department of Education
Atlanta, Georgia

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The following individuals provided special assistance throughout the development of this guide:

Alfred P. Bollens
Director of Finance
Orleans Parish School Board
New Orleans, Louisiana

Alvin Gitlitz, C.P.A.
Assistant Superintendent
Naunet Public Schools
Naunet, New York

Allan R. Lichtenberger
Chief, Educational Data Standards Branch (Retired)
National Center for Education Statistics
Washington, D.C.

Kenneth J. Smith
Manager, Data Systems
Illinois Office of Education
Springfield, Illinois

Harold I. Steinberg, C.P.A.
Partner
Peat, Marwick, Mitchell & Co.
New York, New York

Roy Nehrt
Chief, Elementary and Secondary Analysis Branch
National Center for Education Statistics
Washington, D.C.

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